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Author:
U.S. Office of Federal Coordinator of...
Title:
Report on the leasing of railroad owned grain...
Place:
Washington, D.C.
Date:
1936

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U. S. *Office of federal coordinator of transportation.*
Report on the leasing of railroad owned grain elevator properties. Prepared by J. A. Little, research assistant, federal coordinator of transportation. Washington, D. C., 1936.
cover-title, 4 numb. l., 5–71 p., 1 l., 73–88 p. incl. tables (2 fold.) 27cm.
Leaf following p. [72] blank, is numbered 72.
Multilithed and lithographed.

1. Grain elevators—[Leases] I. Little, James Alfred, 1884– II. Title: The leasing of railroad owned grain elevator properties.

A 36-775

Bureau of Railway Economics HE2708.C886
[3] Printed by L. C.

RESTRICTIONS ON USE:

TECHNICAL MICROFORM DATA

FILM SIZE: 35mm REDUCTION RATIO: 15x IMAGE PLACEMENT: IA (IIA) IB IIB

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U.S. Federal
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Report on the Leasing of
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Grain Elevator Properties

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REPORT

ON

The Leasing of Railroad Owned Grain Elevator Properties

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FEDERAL COORDINATOR OF TRANSPORTATION

WASHINGTON, D. C.
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WASHINGTON

JOSEPH B. EASTMAN
COORDINATOR

May 29, 1936

Aug. 15, 1936 JA ITeC

To the Regional Coordinating Committees:

On August 30, 1934 I submitted to you two reports, prepared by Mr. J. A. Little, of my research staff, dealing with the operation of railroad-owned terminal grain elevators. The reports reached the conclusion that if the railroad-owned elevators at each terminal market were pooled for operation, large economies would result:

(a) In the cost of elevator operation.
(b) Through the elimination of unnecessary switching and cross hauls.

The conclusion was also reached that the revenues accruing to the railroads from these elevators would be increased.

The reports contained further suggestions that both the railroads and the grain industry would benefit, if the pooled elevators were operated by the railroads on a public warehouse basis, as is now the practice at the Atlantic Seaboard.

At the time that they were sent to you, the reports were made public, with the result that the lessees of these railroad-owned grain elevators asked for an opportunity to submit comments and criticisms. I was glad to give them such an opportunity, and in due course their comments and criticisms were received. Subsequently you sent me, with your

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approval, a report by a special railroad committee which, after study, had reached conclusions adverse to the recommendations in Mr. Little's reports.

Mr. Little, with the help of other members of my staff and of bureaus of the Interstate Commerce Commission, has gone very thoroughly into the criticisms of his reports which were submitted by the elevator lessees and the railroad committee. The analysis required some considerable time, because of the stress laid in the criticisms on the inadequacy of the valuation and accounting data presented in the reports. When the reports were made public, it was realized that from a technical court-of-law standpoint the data were inadequate, but it was felt that with all their technical deficiencies they left no doubt that the terms on which many of the railroad-owned elevators had been leased were insufficient, improvident, and designed for the ulterior purpose of buying traffic. This conclusion has now been verified by checks made by the Bureau of Valuation and Accounts of the Commission, which remove the basis for the technical criticisms.

I now submit to you Mr. Little's supplemental report, which presents the results of the further studies made after receipt of the criticisms of his original reports. The conclusions, which I endorse, remain unchanged, except that it is pointed out that the Federal Trade Commission is now engaged in an investigation of grain marketing practices with special reference to the grain warehousing problem, and that its forthcoming report may be expected to deal comprehensively with

these matters. The comprehensive treatment of the entire grain marketing situation which that report will contain may point the way to some modification of Mr. Little's recommendations.

This grain elevator situation is a typical product of railroad competition, when left to its own devices. It is a survival of the old rebating days. The elevators have been leased on inadequate terms to large concerns with a view to attracting or holding grain traffic to the lines of the owning railroads. If this practice were confined to a single railroad, or to a few out of many, it might be of competitive benefit; but when it becomes a general practice, it also becomes a general burden, without benefit to any railroad. Moreover, the privileges thus granted to the lessee operators of the elevators create an unwholesome situation in the grain markets which works to the disadvantage of the grain producers, as Mr. Little clearly shows in his reports. Rebates and like special railroad privileges always benefit the strong at the expense of the weak.

If the railroads concerned are able to cooperate with each other in a sound collective undertaking, they have an opportunity here to clean up a situation which is now burdensome to them, in a manner which will cut their expenses and add to their revenues and at the same time correct unwholesome and unhealthy grain-market conditions to the material advantage of the grain producers. Whether or not I shall, in the

capacity of Federal Coordinator of Transportation, be able to follow this matter up is uncertain. However, it is a matter peculiarly within the provinces and purposes of the Association of American Railroads, and which that Association ought to be able to remedy.

In view of the evidence contained in Mr. Little's reports, indicating that present practices with respect to these railroad-owned grain elevators result in violations of Sections 2, 3, and 6 of the Interstate Commerce Act, and probably of the Elkins Act as well, I shall also bring these reports to the attention of the Interstate Commerce Commission. In this connection, it may be well to point out, what perhaps is not as clearly stated in these reports as it should be, that the evidence does not indicate that the unfavorable financial results of the leases to the owning railroads have been confined to the depression period. They were equally manifest in the prior period of prosperity.

Joseph B. Eastman

Federal Coordinator of Transportation

SUPPLEMENTAL REPORT TO THE
FEDERAL COORDINATOR OF TRANSPORTATION
IN THE MATTER OF
LEASING OF RAILROAD-OWNED TERMINAL GRAIN ELEVATORS

By our original questionnaire we tried to ascertain whether the practice of leasing railroad-owned terminal grain elevators to private operators thereof yielded adequate returns to the carrier owners and, if not, whether such leasing practices might be modified or be superseded by an entirely different method of operation for the purpose of securing more adequate railroad revenue and the maximum possible public service from these common carrier facilities. In analyzing such facts as have been made available we have tried to determine whether the existing practices are lawful under the standards of the Interstate Commerce Act and the Elkins Law and in harmony with the provisions of the Emergency Railroad Transportation Act, 1933.

In preparing our original questionnaire it did not seem necessary to ascertain the exact facts as to the elements of value recited by the Supreme Court of the United States in Smyth v. Ames 169 U.S. 466, since we did not expect to determine whether the net income accruing to the railroad owners from the lease of these elevators was exactly six, eight, or ten per cent on the value, but rather to ascertain whether.

the reported net income, if any, was or was not obviously inadequate as related to some reasonably close approximation of the value of the leased property.

In submitting the report we said:

> No attempt was made to determine replacement or present value as distinguished from reported book value. In the absence of a prescribed classification of accounts it is not certain that the maintenance expenses reported are on a strictly comparable basis, since lease arrangements might vary as to the description of repairs to be borne by leasors. In this connection it should be understood that the amounts reported as maintenance expenses are generally so small that no allowance for depreciation can possibly have been made.

Giving consideration to the facts thus stated, and bearing in mind that the reported figures must be used cautiously with due regard for their inherent weakness in relation to more exact standards of valuation and correct accounting, the conclusion was reached in our report of August 30, 1934 that the earnings from these grain-elevator leases were so obviously inadequate that they should be condemned, (a) by the Federal Coordinator of Transportation, because the properties involved should contribute larger earnings to the owning carriers and be operated in a manner conducive to improved carrier operation in terminals and better service to the public, and (b) by the Interstate Commerce Commission, because of unjust discrimination between shippers violative of sections 2, 3, and 6 of the Interstate Commerce Act and by reason of probable violations of the Elkins Act.

In our further consideration of this subject we should keep in mind the interpretation which the Interstate Commerce Commission has placed upon the Interstate Commerce Act and the Elkins Act.

In Brook-Ranch Mill & Elevator Co. v. Mo. Pac. Ry. Co., 17 I.C.C. 158, the Commission considered a situation in which the railroad company had invested $106,821.76 in construction of a grain elevator and mill, which were leased to a shipper who agreed to pay all taxes, assessments, and insurance premiums, to keep the buildings and machinery in repair, and to pay $1 per annum in addition. Lessee was said to have failed to meet all his obligations. In disposing of the issues, the Commission, speaking through Commissioner Harlan, at page 164 considered the lawfulness of the lease arrangement in the excerpt below:

> The contract upon which Bunch rests his right to the free use of the railroad's facilities or property has been discriminatory from the beginning. The act to regulate commerce as it was in force at the time the undertaking was entered into prohibited all unjust discriminations. The agreement therefore was unlawful and void ab initio. The general principles underlying our decision in Eichenberg v. Southern Pacific Co., 14 I.C.C. Rep., 250, are equally applicable here. That one shipper may not enjoy at the hands of a carrier advantages that are denied to other shippers is a principle asserted in the act throughout its various provisions, and has been consistently enforced by us in numerous reported cases that are familiar to all and therefore need not be cited here.

In a proceeding entitled In the Matter of Keystone Elevator Company, 25 I.C.C. 619, the Commission, speaking

through Commissioner Lane, required the respondent to desist from leasing its elevator to a receiver of grain who paid a rental of less than 2 per cent on the value of land and improvements. The Commission gave separate consideration to an allowance paid and required respondent to cease further payment or pay a similar allowance to all other shippers using the elevator in question or other elevators at Philadelphia.

The Commission has given us further indicia of unlawfulness in In the Matter of Leases and Grants of Property by Carriers to Shippers, 73 I.C.C. 671, wherein it considered, among other situations, leases of railroad right-of-way lands in Spokane, Washington, providing payment of six per cent on the value of the land, plus taxes and special assessments, the value of such land having greatly increased since the date of such leases without concurrent adjustment of the rental payments. In disposing of the issues the Commission said, p. 683:

> 1. No justification exists for the leasing of railway lands to industries at a nominal rental charge. In cases where nominal or wholly inadequate rentals are reserved in leases it is evident and indeed conceded, that traffic considerations are the moving cause so far as the carriers are concerned. Where it clearly appears that the traffic of the lessee is in part the consideration for the lease, the conclusion follows almost inevitably that the transaction amounts to a concession to the shipper-lessee, in violation of the Elkins Act and of sections 2 and 6 of the Interstate Commerce Act.

> 2. A provision in a lease of railway land whereby a shipper agrees to route over the lines of a lessor carrier or its connections all or any part of the traffic which the shipper is able to route amounts to an acknowledgement that the consideration for the making of the lease was in part the exchange of traffic by the shipper for the right to occupy the land.

In Interstate Commerce Acts Annotated, note 65 p. 1082, applicable general principle is stated as follows:

> When nominal or wholly inadequate rentals are reserved in leases of a carrier's land to shippers, traffic considerations are the moving cause so far as the carriers are concerned and where it clearly appears that the traffic of the lessee is in part the consideration for the lease, the transaction amounts to a concession to the shipper-lessee in violation of this section, Central of Georgia Ry. Co. v. Blount, 238 Fed. 292; Brook-Ranch Mill & Elevator Co. v. Missouri Pacific Ry. Co., I.C.C. 158; in re Keystone Elevator Co. 95 I.C.C. 618; in re Rates for Transportation of Anthracite Coal, 35 I.C.C. 220; in re Leases and Grants by Carriers to Shippers, 73 I.C.C. 671.

The latest expression of the Commission on this subject is contained in its report in Ex Parte 104, Practices of Carriers Affecting Operating Revenues or Expenses, Part VI, Warehousing and Storage of Property by Carriers at Port of New York, N.Y., 198 I.C.C. 134, decided December 12, 1933, wherein it cited with approval the principles announced in Leases and Grants by Carriers to Shippers, 73 I.C.C. 671, and said in part, pages 199 to 202:

> Although the carriers charge all shippers alike the tariff rates for rail transportation, it is obvious that the according of noncompensatory warehousing charges and rental to some shippers and not to all is equivalent to a deduction from the charges for transportation to some shippers

and not to others for like and contemporaneous service. This is clearly prohibited by section 2 of the act. It is likewise clear that the shippers receiving the benefit of such noncompensatory charges are given unjue preference or advantage in violation of section 3 (1) of the act, over shippers who have no need of warehousing or storage, or others who for various reasons are compelled to pay the line-haul rate undiminished by any such benefits. These violations are added to in some cases by the free loading and unloading of carload freight, or payment of allowances therefor; and the handling of freight into and out of storage at less than compensatory rates. The fundamental purpose of the act is to require fair and equal treatment of shippers, "to compel the carriers as a public agent to give equal terms to all," "to cut up by the roots every form of discrimination, favoritism, and inequality", and to "place all shippers upon equal terms" New York, N. H. & H. R. Co. v. Interstate Comm. Com., 200 U.S. 361; Louisville & Nashville R. Co. v. Mottley, 219 U.S. 467; United States v. Union Stock Yards, 226 U.S. 286. Carriers subject to the act cannot lawfully accomplish violations of these sections by resorting to separate corporations which they dominate and direct. United States v. Lehigh Valley R. Co., 220 U.S. 257; Chicago, M. & St.P. R. Co. v. Minneapolis C. & C. Assn., supra, United States v. Delaware, L. & W.R. Co., 238, U.S. 516. Nor can such violations be justified by reason of existing contracts. United States v. Union Stock Yards supra; Louisville & Nashville R. Co. v. Mottley, supra. (Emphasis supplied.)

These practices lead also to violations of section 6 (7) of the Interstate Commerce Act.

The evidence of record also affords reasonable ground for the belief that the carriers have violated and are violating the provisions of the Elkins Act.

The private warehouse companies are "persons" within the meaning of that word as used in sections 2 and 3 of the Interstate Commerce Act, and the charges which they are required to pay and the treatment they are accorded by carriers subject to the act are subject to the provisions of these sections, as well as the provisions of the Elkins Act. Compare Merchants Warehouse Co.

v. United States, supra. As shippers they are to be dealt with in accordance with the provisions of the act. It is of course recognized that the rail carriers are under no obligation to place their charges for warehousing services on a basis which will insure a profit to private warehouses if their charges meet the provisions of the statutes. Compare Amer. Warehousemen's Assn. v. Inland Waterways Corp., 188 I.C.C. 13. But regardless of the effect upon private warehouses the carriers are bound to comply with the law even though such compliance necessitates changes in rates and practices that were designed to attract traffic to their facilities. The present rates and practices of the rail carriers, as considered herein, cannot be justified upon the ground that the aggregate charges are not unreasonable as not all shippers are accorded the same aggregate charges for like and contemporaneous services.

The situation here presented is analogous to that considered by the Supreme Court in New York, N. H. & H. R. Co. v. Interstate Commerce Commission, supra. The question to be decided in that case, as stated by the court, was "has a carrier engaged in interstate commerce the power to contract to sell and transport in completion of the contract the commodity sold when the price stipulated in the contract does not pay the cost of the purchase, the cost of delivery, and the published freight rates?" In reaching a negative decision upon this question the court said:

> Because no express prohibition against a carrier who engages in interstate commerce becoming a dealer in commodities moving in such commerce is found in the act, it does not follow that the provisions which are expressed in that act should not be applied and be given their lawful effect. Even therefore, if the result of applying the prohibitions as we have interpreted them will be practically to render it difficult, if not impossible, for a carrier to deal in commodities, this affords no ground for relieving us of the plain duty of enforcing the provisions of the statute as they exist. This conclusion follows, since the power of Congress

to subject every carrier engaging in interstate commerce to the regulations which it has adopted is undoubted.

The above question, as stated by the court, can properly be paraphrased to cover the situation here presented, as follows: Has a carrier engaged in transporting commodities in interstate commerce the power to furnish directly or indirectly storage or warehousing facilities not within its common-carrier duty and to act as a private or commercial warehouseman when the amounts received from such storage and transportation are not sufficient to pay the cost of such storage without a concession from the published freight rates? This question clearly must be answered in the negative, and it follows that if respondents are to continue engaging in such business their charges directly or indirectly for storage or warehousing, and for privileges or services rendered in connection therewith, must be put on a basis which, entirely independent of freight rates, will reimburse respondents for the full costs of such services.

COMPETITIVE WASTE

Apart from the requirements of the statutes previously discussed, the competitive waste involved in the practices dealt with herein is deserving of most careful consideration. These practices are similar to those considered in Duplication of Product Terminals, 188 I.C.C. 323, wherein we directed attention to the statement in Fifteen Per Cent Case, 1931, 178 I.C.C. 539, 585 as follows:

> The record shows that in the past decade the railroads have made great strides in improving their service and at the same time operating with greater efficiency and economy. But what they have done in this direction has largely followed lines which developed under conditions different from those which now prevail, and it has been characterized by a continual intensifying of their own competition. At a time when as an industry they have new enemies to face, their warfare with each other has

> grown more bitter, so that economies in operation have been offset in part by the growth of competitive waste.
>
> All this is contrary to the spirit of the transportation act, 1920. Congress then looked beyond the individual railroad to the concept of a national transportation system. It pointed the way in the consolidation provision to the reduction of competitive wastes. It went to the extreme of removing the barriers of restrictive Federal and State antitrust legislation which might otherwise stand in the way. Short of consolidations, it opened wide the door to agreements for the pooling of service and of revenue, whenever it could be shown to our satisfaction that such agreements were in the public interest. Much has been accomplished in the way of unification, but much remains to be done, and the pooling provisions of the law stand almost unused. Further progress along the lines pointed out by Congress will aid in bringing about the co-operation which is essential to railroad salvation. But the problem cannot wholly be solved in this way, nor is there need that co-operation should be subordinated to the consolidation program.

In our report covering Duplication of Produce Terminals, supra, we further stated:

> The matters and transactions which have been described above are illustrations, out of many which might be given, of the serious wastes which often result from intense competition of railroads with each other for traffic. It is believed that such wastes can, by proper co-operation, be avoided or at least minimized.

In that report we referred to a statement addressed by the railroads "To the American Public" and issued on July 21, 1932, in which it was stated that railroads "pledge themselves to avoid all preventable wastes in the competitive relationship between themselves."

Most of the cases cited deal with the question whether the terms of lease arrangements existing between shippers and carriers with respect to various types of railroad-owned real estate are lawful when tested by the provisions of the Interstate Commerce Act. Inadequate rentals are condemned because of preference, prejudice and unjust discrimination, in violation of sections 3 and 2, and because of concessions from published tariff rates, in violation of section 6 of the Interstate Commerce Act. In the case last cited the Commission also considered the question whether conditions of warehousing and storage at the Port of New York resulted in wasteful practices violative of the spirit and intent of the Transportation Act, 1920. The Emergency Railroad Transportation Act conferred upon the Federal Coordinator of Transportation power to enter orders controlling allowances, accessorial services and the charges therefor, and other practices affecting service or operation, to the end that undue impairment of net earnings may be prevented, and that other wastes and preventable expenses may be avoided. The problems before us may be summarized in two questions:

1. Are the gross and net rentals paid to railroad common carriers for use of grain elevators and appurtenances thereto, located principally at Chicago, Kansas City, St. Joseph and Omaha-Council Bluffs, sufficient to pay a fair return on such properties and, if not, what, if any, violations of

the provisions of the Interstate Commerce Act, or Elkins Act, exist, and, what, if anything, should be done under the Emergency Railroad Transportation Act?

2. What, if any, preventable, wasteful transportation practices, other than the collection of inadequate gross and net revenues, exist in connection with the present system of leasing railroad-owned elevators?

We shall proceed to review these questions in the light of further data now available.

I

In the original report of August 30, 1934 the net income after taxes, making no allowance for depreciation, was determined for each leased grain elevator for each year of a 5-year period and the average annual net income for that period was applied to the book value, reported as of approximately the date of the report, to determine the rate of the return on the investment paid by lessees for the use of such elevators. Generally such computations showed the payment of a grossly inadequate or nominal return on the book value, or a deficit. The original data referred to may be found in Appendix C to the report of August 30, 1934. The report shows that a deficit resulted from leasing nine elevators. Twenty others, including the largest elevators at Chicago and Kansas City, paid less than 2 per cent on book value. Of the remainder, twelve elevators earned 2 to 4 per cent and 10 elevators earned 4 per cent or better on book value. None of these calculations makes any allowance for depreciation. Nearly 20 per cent of the total number of elevators paid no return but required the railroad owners to pay cash deficits out of pocket to keep the elevators open in the hands of lessee operators. Approximately 60 per cent of the total number earned less than two per cent on the book value, or an actual deficit. Such figures seem persuasive as to the general inadequacy of lease revenues without resorting to accounting or valuation refinements.

Since the report was issued, we have secured copies of the leases covering these elevators which show that the property leased does not include the industry tracks serving such elevators or the land on which such tracks are located. These leases also show that the lessee covenants to route traffic via lines of the lessor railroad as a partial consideration for the lease. If the lessees were charged with the payment of the expenses of maintaining such trackage, the taxes levied thereon, and a return on the value of the necessary land and tracks, the amount of deficits would be increased or the reported return on these leased properties would be proportionally reduced.

In order to determine more accurately the earnings and expenses and rate of return from leasing these railroad elevators, nine were selected for further study. Five of these were located at Kansas City and four at Chicago, which roughly reflects the relative importance of railroad-owned grain elevators at those points. The group includes the most important elevators at both points and is intended to reflect a fair average of earning capacities to get a fair and representative cross-section of the entire leased-elevator situation. Valuation and accounting studies of these properties were made by the Bureaus of Valuation and Accounts of the Interstate Commerce Commission.

The Bureau of Valuation of the Commission appraised the value of the nine elevators in question. For each property, data were reported showing the Original Cost to Date, exclusive of land; Original Cost to Date, exclusive of land, reduced in proportion to depreciation; Cost of Reproduction New, based on 1934 Period Prices; Cost of Reproduction less Depreciation, based on 1934 Period Prices; Cost of Reproduction New, based on 1934 Spot Prices; Cost of Reproduction less Depreciation, based on 1934 Spot Prices; and Present Value of lands. In each case the valuation data reported do not include any appraisal of the value of land and tracks necessary to handle the inbound and outbound grain traffic at each elevator. In addition, the Bureau of Valuation stated the annual rate of depreciation which was found to be proper for each leased elevator. By comparing the rate of depreciation found by the Bureau with the financial history and service life of certain properties involved, we can safely say that the assumed depreciation rate is a conservative figure which certainly does not overstate the annual diminution of property values by reason of accruing depreciation and obsolescence.

The Bureau of Accounts audited the railroad accounts covering each elevator and reported the book investment for each year, the rentals received, the expenses incurred, the net return and per cent of annual return to investment.

As a part of the Appendix to this report, we have reproduced Appendix C of the report of August 30, 1934, showing the earnings, expenses, and return from elevator leasing operations as they appeared on the face of returns to our original questionnaire. We have set this table up as Section A of the Appendix. Section B of the Appendix is a tabulation of data furnished by the Bureau of Valuation of the Interstate Commerce Commission, making an appraisal for each elevator and a statement of depreciation rates found for each property. Section C of the Appendix is the report of the Interstate Commerce Commission Bureau of Accounts showing Investment, Rentals, Expenses and the "net return" for each elevator property. It will be noted that in some cases lessor railroads assumed certain expenses not clearly chargeable to them under the existing leases and that, in each case, no depreciation was charged.

In our further appraisal of results of leasing these properties, we have assumed that the carrier lessor is entitled to receive from the lessee the expense of maintaining the elevator which the railroad bears, the taxes and insurance paid, a sum equal to the annual depreciation in the value of the property, and a fair return on the value of the property, including tracks necessary to its operation.

The determination of what was, or is now, a fair rate of return on these railroad elevators during the period covered

by existing leases is not a simple matter. In most cases the lessee has been in possession of the elevator during a perid of prosperity when business was good and earnings were high as well as in other years when the reverse was quite generally true. The leases show instances where the lessee covenants to pay additional rentals based on six per cent of the cost of substantial additions to the property. In other instances lessees have built the elevators or additions thereto under contracts providing for repayment of the principal with interest at six per cent. In several instances of this kind such repayment of principal, advanced by lessee for construction, and interest thereon, has been based on a fixed amount, e.g. ten dollars, per car for each carload of inbound or outbound or inbound and outbound traffic on which the railroad owner of the elevator received a line haul. In the case involving Leases and Grants of Property by Carriers to Shippers, supra, the Commission considered the legality of leases providing a rental of six per cent on land values which had not been reappraised to reflect increases in the value of such lands and condemned the lease arrangements as unlawful. Following this decision many railroads have leased bare land to shippers on a net 6 per cent basis after taxes and special assessments. With these facts in mind we have set up return on these properties on a six per cent basis. It may be argued that these carriers can borrow money at lower rates of interest and that,

in general, the lessor carriers have not earned six percent; but, in dealing with such special pieces of terminal real estate, it cannot be shown that capital for elevator construction can be secured on a basis as low as the interest rate which investors accept having regard to the financial history and earning power of the entire railroad property.

Measured by such a standard, none of the nine elevators covered by the accounting and valuation study paid adequate rentals. Six of them paid a moderate return on value averaging from .6 to 2.38 per cent. The rentals received for use of the other three elevators did not pay expenses including depreciation. Included in the latter group is the fine, efficient ten million bushel capacity elevator owned by the Santa Fe at Argentine (Kansas City, Kansas) and the modern ten million bushel elevator with special yard facilities and water frontage owned by the Chicago & North Western in the Chicago district. The Chicago & North Western elevator was leased for a sum equal to less than one per cent on the depreciated reproduction cost of the property at 1934 period prices. The Santa Fe elevator did not pay all costs including a modest rate of depreciation, with no allowance for return on value.

Section D of the Appendix shows the results of leasing these nine test properties at Kansas City and Chicago.

In preparing these statements it was necessary to correlate the valuation and accounting figures. Obviously the

recent appraisals made by the Bureau of Valuation could not fairly be applied to the results of leasing and operating anything else than substantially the existing properties. For this reason reference was had to the investment reported by the Bureau of Accounts for each elevator for each year to determine the accounting period for which such investment figure approximately equalled the "Original Cost to Date, exclusive of land," reported by the Bureau of Valuation. For example, referring to Section C of the Appendix, it was found that the peak "investment" in the Santa Fe elevator at Argentine (Kansas City, Kansas) was $3,832,941.25 in 1931 and that figure remained nearly constant to June 30, 1935. It was therefore concluded that the valuation figures were valid for test purposes during that period. All computations relating to earnings and expenses and return for that property were accordingly based on figures for the period January 1, 1931 to July 1, 1935, inclusive. Below we have reproduced a table showing the financial results of leasing the Santa Fe Kansas City elevator referred to.

Results of leasing
the Atchison Topeka & Santa Fe Ry. Co.,
elevator at Arengtine, Kansas, to
Davis-Noland Merrill Co.

Storage Capacity of the elevator 10,529,000, bushels

Rental income Jan. 1, 1931 to June 30, 1935	$617,357.81
Expenses paid by carrier owner	389,019.10
Balance	228,338.71
Depreciation, 1½ per cent on original cost plus land ($4,048,874), $60,733.41 per annum, 4½ yrs.	273,300.35
Deficit	44,961.64
Return on investment for elevator proper 6 per cent on original cost -- $242,932.44 per annum, $242,932.44 times 4½ years	1,093,195.98
Deficit	1,138,157.62
Taxes and maintenance on yard tracks or sidings which a private owner of similar property would pay based on respondents figures (4½ years)	4,232.22
Respondent's value of land and tracks, $100,000, six per cent return ($6,000) per annum, 4½ years	27,000.00
Deficit under adequate return on the property	$1,169,389.84

In general the figures are self-explanatory. Comparison of respondent's estimates of taxes and maintenance cost of sidings necessary for this huge elevator property with similar estimates covering other elevators either at Kansas City or Chicago raises some question as to the sufficiency or accuracy of such estimated charges.

It should be understood that, in many respects, this Santa Fe elevator is the best, as well as the largest, elevator in our principal grain markets. The Santa Fe is one of the most important grain-originating lines in trans-Mississippi territory and is abundantly justified in providing adequate grain storage for the purpose of promptly releasing grain cars at the peak of the grain movement. Unfortunately, as pointed out in our first supplemental report, page 7, this elevator received only 1/3 to 1/2 as much grain in proportion to capacity as other Kansas City elevators and, as shown at page 5, thereof, only 2,065 cars of grain out of 27,159 carloads delivered at Kansas City by the Santa Fe were unloaded at this elevator. Obviously it was not used to best advantage, regarding the interests either of the owning carrier or the grain shipping public. Lessees and carrier committees have expressed the view that low rentals are generally justified by physical condition of the properties or by lack of opportunity to get sufficient grain to make use of the elevator profitable to both lessors and lessees. From any angle it

does not seem possible to justify the failure of this elevator property to pay its way. None of the propositions advanced by lessees are valid as applied to this Santa Fe elevator.

However, there are instances where railroad elevators are now in a run-down condition resulting in high operating costs and low rental values. Fortunately we are able to test the soundness of present leasing policies by the history of such a property.

The Chicago, Milwaukee, St. Paul & Pacific Ry. Co. owns an elevator of 2,852,600 bushels capacity known as the Coburg elevator at Kansas City. For 28 years preceding July 1, 1935, it was leased to the Simonds, Shields, Lonsdale Grain Company, for many years, and now, a leading company operating on the Kansas City Board of Trade. The original cost of the property is stated as $707,232 (Section B of the Appendix) and original cost depreciated, $162,663. The same lessee has occupied the property and used it throughout practically its entire service life. As shown by the report of the Bureau of Accounts, the Milwaukee spent for taxes, insurance and maintenance, during the past 15⅝ years, $4,559.89 more than rentals received. In addition the lessor lost by depreciation $544,569 out of the total original cost of $707,232. As against one who enjoyed the beneficial use of the entire property from the beginning it would seem fair to charge 6 per cent on original cost as a proper net return. As shown

in Section D of the Appendix, the final result is that by failure to provide depreciation, by failure to pay a reasonable net return, by failure to pay out of pocket costs, including taxes and maintenance of necessary trackage, the lessee received cash, property values and benefits from the lessor carrier, worth approximately $1,248,305.06 in excess of the amount paid as rentals. If lessee had owned a similar elevator property having similar operating costs and worth six per cent net return, the Simonds, Shields, Lonsdale Company would have been burdened by this approximate $1,250,000 loss instead of the Milwaukee railroad company.

This is not the only case of this kind. The 4,500,000 bushel elevator of the Rock Island at Chicago was bought from the J. C. Shaffer Grain Company in 1904 and leased back to the original owner. As shown by Section D of the Appendix, page 8, the actual cash expenses of the Rock Island during the past 10-3/4 years were $91,823.77 more than the rentals received. If depreciation and rental return be considered, the lessor company gave lessees a sum equivalent to the value of the property in out-of-pocket loss, failure to pay any return and failure to offset depreciation. In this connection it should be stated that since the issuance of the original report the lease to the Shaffer Grain Company has been terminated by the Rock Island, and the property leased to the Farmers National Grain Company at a rental somewhat

higher than that paid by the original lessee. It should also be said that the present lessee, the Farmers National Grain Warehouse Corporation, has made public comment on the situation shown by our former report, agreeing that the situation required drastic action and stating their willingness to pay a compensatory rental. The Farmers National did not join in the brief filed by the lessee elevator association in opposition to the report.

These are not isolated cases. Leases covering two elevators in the Omaha-Council Bluffs area will serve to demonstrate even more clearly the attitude taken by the railroads in leasing their elevators to grain shippers. Both of these properties are leased to the Updike Grain Corporation. In 1918 the Chicago & North Western Railway built an elevator of 1,350,000 bushels capacity at Council Bluffs, Ia., and leased it to the Updike Grain Corporation for $72,000 per annum, which was approximately six per cent gross on the original investment of $1,158,752.26, making no allowance for depreciation, taxes, insurance or maintenance costs. Four years later, on June 26, 1922, the rental was reduced to $50,000 per annum on the ground that the volume of grain passing through the elevator had declined. The reports of the Omaha Grain Exchange show that the 1922 grain receipts were the largest in twenty years excepting the year 1918. This $22,000 per annum reduction in rental, on an elevator

only four years old, was equivalent to writing off $366,666.00 of the original investment of $1,158,752.26 made in 1918. In 1928 and 1929 improvements were made, including construction of concrete storage tanks of 1,000,000 bushels capacity, which cost the Chicago & North Western Railway Co. $257,955.44. On a six per cent (gross) basis such new facilities were worth $15,477.33 additional annual rental. On January 25, 1928, the lessee, Updike Grain Corporation, agreed to pay six per cent on the cost of such additions plus $50,000 per annum (for the original elevator built in 1918) or a total of $65,477.33 per annum. While these improvements were being made, on November 23, 1928, the Chicago & North Western Railway agreed to accept a rental of $56,370.96 per annum in lieu of the $65,477.33 agreed upon in the new lease of January 25, 1928. This reduction of $9,106.37 per annum in the agreed rental is equivalent to writing off $151,666 of the new investment, totaling $257,955.44, within ten months of the new lease date and before the new concrete storage had been completed. The total rent reductions of 1923 and 1928 were equivalent to writing off $518,272 of the original investment within ten years from the date of original construction. These facts make it clear that this elevator was not built for the purpose of earning a reasonable return on the investment involved. The hope and expectation that traffic might be secured from the grain shipper lessee must have been the reason for

making such an unprofitable investment in elevator facilities.

The same deduction seems justifiable in connection with the leasing of the Chicago, Milwaukee, St. Paul & Pacific Railway elevator at South Omaha to the Updike Grain Corporation. In 1905 the Updike Grain Corporation built an elevator of 434,600 bushels capacity on land owned by the Union Stock Yards Company at South Omaha, Nebraska. The elevator was treated as personal property with a right of removal in the Updike Grain Corporation, owner, under certain conditions. A recent appraisal shows that the undepreciated original cost of this property is $87,654. In 1923 the Chicago, Milwaukee, St. Paul & Pacific Railway Company bought this elevator for $90,638. The elevator was leased back to the former owner, Updike Grain Corporation, at a rental of $5,100 per annum for 10 years. When the property was bought, the Milwaukee spent $15,245.00 for repairs due to deferred maintenance. In 1934 the railroad company estimated the depreciated value of the property as $43,000, representing accrual of $47,658 depreciation, or more than half the purchase price, in ten years. In effect, the Updike Grain Corporation recovered its entire original investment from the sale of the elevator to the railroad company and unloaded deferred maintenance and accrued depreciation, totaling approximately two-thirds of the original cost, on to the railway company. The Updike Grain Corporation also passed on to the railroad company the burden

of insurance, taxes and annual, ordinary maintenance which lessee had borne as owner. We cannot reasonably assume that the railway company did not know the condition of this elevator or that the purchase of it would not be profitable. We can only conclude that the Milwaukee permitted the shipper to unload this elevator and lease it back on favorable terms in the hope and expectation that traffic could be secured by so doing.

It should be remembered that the Federal Trade Commission in its report on "The Grain Trade", issued on 1921, criticised both the Simonds, Shields, Lonsdale, Kansas City lease and the J. C. Shaffer Chicago elevator lease as examples of a situation tending to create monopolistic control of grain marketing by operators upon whom such unfair advantages were conferred by common carriers. Nothing was done to remedy either situation after 1921. It can hardly be doubted that such losses on property leased to large grain shippers at the markets result in undue preference of such shippers and unjust discrimination against competing shippers who own and operate their own facilities. The competing shipper who provides such facilities out of his own capital directly suffers losses by reason of failure to set up depreciation reserves or to earn a sufficient net return on investment. The net effect of such leasing transactions is equivalent to the reduction of freight charges paid by lessees in the exact amount

by which lease rentals are inadequate.

Our report of August 30, 1934 related to income and expenses resulting from the leasing of each railroad-owned elevator for the five years 1928 to 1932, inclusive. Section A of the Appendix hereto reproduces accounting data submitted with the report of August 30, 1934. Section D of the Appendix hereto is a compilation based on accounting and valuation studies relating to nine of the elevators embraced in Section A of the Appendix. The valuation study covering the nine selected elevators was recently made and the accounting data relate to lease periods of varying length ending July 1, 1935. In some instances the later study covers a period of time long enough to cover the original five-year base 1928 to 1932. For these reasons the data relating to these nine elevators in the original report are not strictly comparable with the data now available based on recent valuation and accounting studies. With this qualification in mind, attention is directed to the table below showing the data in the original report compared with the results of the accounting and valuation studies, relating to the nine selected elevators.

It will be seen that the special study of nine selected elevators fully confirms the original finding in our August 30, 1934 report that the rentals paid for railroad elevators are generally grossly inadequate, resulting in undue preference and prejudice and unjust discrimination among grain shippers and in favor of lessees.

	Elevator Capacity Bushels	Location	Lessee	Original Report Average Annual Net income Years 1928 to 1932	Original Report Return on investment 1928 to 1932	Special Valuation and Accounting Study. Average Annual Net income (after depreciation)	Special Valuation and Accounting Study. #Return on Original Cost
Santa Fe	10,529,000	Kansas City	Davis	$16,850.40	.455%	$10,579.20 (d)	(d)
			Noland				
			Merrill				
Burlington	2,400,000	"	Farmers National	37,933.28	3.26	19,448.72	1.56%
			Warehouse				
			Simonds				
Milwaukee	2,852,600	"	Shields	5,969.20(d)	(d)	21,634.56 (d)	(d)
			Lonsdale				
			Simonds				
Rock Island	3,731,280	"	Shields	5,362.72	.44	707.94	.1%
			Lonsdale				
Wabash	4,137,120	"	Uhlman Grain Co.	24,320.52	1.93	20,570.54	1.59%
Ches. & Ohio	4,000,000	Chicago	Rosenbaum Bros.	19,326.92	1.94	27,486.88	2.8%
			Rosenbaum Grain				
Chicago & North Western	10,000,000	"	Corp. (Cargill Grain Co. assignee)	94,216.85	1.90	41,737.00	.85
			Farmers National				
Rock Island	4,500,000	"	Successor J. C.	6,846.30(d)	(d)	31,224.96 (d)	(d)
			Shaffer Grain Co.				
New York Central	1,250,000	"	Bartlett Frazier Grain Co.	11,213.60	2.99	6,175.32	1.5%

The special valuation and accounting study generally relates to a different period of time, terminating in June, 1935 but variously including all or part of the original 1928-1932 period.
(d) Deficit.

Section D of the Appendix, as illustrative of the general leasing situation, shows an undue impairment of net earnings and reflects preventable waste. These railroads are bearing a substantial part of the expense of carrying on the competitive grain businesses of the lessee companies by accepting rentals which do not compensate for current costs of owning and maintaining the elevators. Some attempts are made to justify existing conditions on the theory that the railroads have owned these elevators so long that depreciation and obsolescence have reduced rental values and impaired the operating efficiency of the properties. There are two answers to this contention. First, the lessees who have used these grain elevators for long periods of years and have paid rentals which did not compensate the railroad owner for accruing depreciation or obsolescence cannot equitably be permitted to benefit from the uncompensated reduction of property values which is the direct consequence of the unlawful rentals paid throughout the lease period. Second, there is substantial evidence indicating that elevators were constructed or acquired by the railroads with knowledge of the fact that little or no return on the investment would be received when such properties were leased to grain shippers. The statement above concerning the construction and improvement of the Chicago & North Western Railway Co. elevator at Council Bluffs, Iowa, and the purchase of the Chicago, Milwaukee, St. Paul & Pacific Railway elevator at

South Omaha, both of which are leased to the Updike Grain Corporation, illustrate investment of carrier funds without hope of earning or return on the one hand and payment of an excessive price for an elevator without regard to accrued depreciation and deferred maintenance which precluded any hope of return from such investment, on the other. In every case it is clear that these grain elevators were constructed or acquired by the railroads and leased to grain shippers at unduly low rentals for the purpose of attracting grain traffic or holding such traffic on the rails of the carrier providing such facilities. The basic reason for inadequate rental revenues from these elevators is the same uncontrolled and excessive railroad competition for traffic which has produced every other form of preference, prejudice and unjust discrimination between competing shippers. This competitive situation so handicaps the railroad in leasing such properties that it does not seem possible for the individual lines owning these elevators to negotiate leases which will yield adequate returns for their use. From this point of view it seems clear that the unfortunate situation now existing is as much the fault of the shipper, who uses his control of traffic to secure favorable leases at unduly low rentals, as of the carrier exective who yields to such pressure in the hope that added freight revenues sufficient to compensate for rental deficiencies may be earned.

As was pointed out in the earlier report, grain is a fungible, liquid, bulk commodity which can only be marketed by use of special facilities for storing grain accumulated during periods of harvest peak movement to be thereafter distributed through processors into consumption channels. All the facilities for grading, weighing, cleaning, drying and conditioning grain in process of movement from the farm to ultimate consumers are provided in connection with grain elevators at terminal markets. The man or grain firm who enjoys the use of a terminal elevator and its varied services and facilities, under lease from a railroad, at rentals less than it would cost him to provide the same facilities for himself, has an unfair advantage over his competitors who have provided similar facilities the entire cost of which they bear.

Railroad elevator lessees also have a very great advantage over the small cash grain trader who has no elevator facilities and must pay full published tariff storage charges and regular rates for drying, cleaning and mixing services. The advantage of the railroad elevator lessee is measured by the differences between the published tariff rates for storage, cleaning, and other processes to which his grain is subjected and the actual net cost per bushel to him, which is reduced by railroad participation in the expenses of providing, maintaining and operating such facilities. This waste of carrier net earnings and impairment of the usefulness of railroad elevators

to the public has created a special class in the grain markets who have gradually crushed or minimized competition of small grain traders and have come into control of trading on both the cash and futures grain market operations. The general public, therefore, has an interest in the prevention of such wasteful practices, because of the possible restoration of more normal competition in grain marketing and determination of grain prices which should follow the termination of these special privileges long enjoyed by lessors of railroad elevators. In the report of August 30, 1934 reference was made to the findings of the Federal Trade Commission on this subject in its monumental report on the grain trade. The findings of the Federal Trade Commission are amply supported by a recent intensive study of conditions affecting the Chicago cash and futures grain markets made by Mr. Benjamin Goldstein, a Chicago attorney, in his book, "Marketing, A Farmer's Problem", which was written after he had served as counsel for a legislative committee of the Illinois legislature investigating that subject.

We pass now to a discussion of the second proposition:

II

What, if any, preventable, wasteful transportation practices, other than the collection of inadequate gross and net revenues, exist in connection with the present system of leasing railroad owned elevators?

In the first place there is a waste of transportation facilities involved in giving a single grain operator the exclusive right to use these railroad elevators. When a large efficient elevator, having sufficient capacity to facilitate the transportation, storage and marketing of the grain produced in territory which it serves, is built by a railroad and is dedicated to the use of a single grain firm under lease, there is waste of the grain storage and handling facilities which have been provided in excess of the needs of the lessee. This wasted elevator capacity may be badly needed to serve the grain traffic which earns line-haul freight revenues for the railroad owner, but country grain shippers and grain firms at the market, who may buy such grain in competition with the elevator lessee, can not use the excess elevator capacity, unless (a) the grain is sold to the lessee, or, (b) if the elevator be operated as a public warehouse, unless the grain be stored at public storage rates exceeding the lessee's costs for similar storage in the same elevator. In such instances the railroad provides for both transportation and storage of grain produced at points on its line. In so far as direct transportation costs are concerned, the elevator lessee pays the same freight rates and charges as other shippers for a like and contemporaneous service but, when the necessary storage and handling of grain at the market are considered, the lessee enjoys lower aggregate costs of transportation and elevation than his competitors must pay.

The elevator operator enjoys the equivalent of a reduction in his freight charges amounting to the difference between an adequate rental for the railroad elevator and the lower rental actually paid.

The leasing of the Santa Fe elevator at Kansas City will illustrate the point. During the years 1928 to 1932, inclusive, the Santa Fe delivered grain equivalent to from 908 to 3,377 carloads annually at this elevator. Only 32 per cent of the total grain received at the elevator earned line-haul revenues for the Santa Fe. During this five-year period this 10,000,000 bushel capacity elevator received 50,798,759 bushels of grain, as compared with 90,252,000 bushels received at the Chicago & North Western Railway Chicago elevator of like capacity. In a single year the compared Chicago elevator received 24,628,500 bushels of grain, equivalent to approximately 15,893 carloads. There was a large crop in Kansas in 1931. During that year the Santa Fe delivered 35,434 carloads of grain at Kansas City and stood in need of large elevator storage and quick unloading of its grain cars at the Kansas City terminals. In the face of such an emergency the lessees of the Santa Fe elevator unloaded 3,377 carloads of grain from Santa Fe points and 3,577 carloads originated on other lines, a total of 6,954 carloads. The Santa Fe local grain unloaded at its huge Kansas City elevator was less than ten per cent of the total Santa Fe grain delivered at that terminal in 1931. If this elevator had handled a total

volume equivalent to the performance of the Chicago & North Western Railway Chicago elevator (24,628,500 bushels), some 15,893 carloads could have been unloaded instead of the 6,954 cars actually unloaded, of which only 3,377 cars were Santa Fe grain. It was, therefore, possible for the Santa Fe elevator to have handled nearly half the total grain delivered by the Santa Fe railroad at Kansas City in 1931 instead of less than ten per cent thereof. This is not merely a theoretical conclusion supported by mathematical computations. The actual performance of less efficient railroad-owned elevators of much smaller capacity during the same year proves the point. The table below is self-explanatory.

Comparison of grain handled by Kansas City elevators.

Elevator owned by	Capacity bushels	Total cars of grain received in 1931
Santa Fe	10,000,000	6,954 cars
C. B. & Q. R. R.	2,400,000	6,357 cars
C. M. St. P. & P. Ry.	2,852,600	5,998 cars

To interpret these figures it should be understood that the Santa Fe elevator is one of the most modern and fastest grain-handling plants in the United States. The compared Chicago, St. Paul & Pacific Railway elevator is said to be an obsolete structure whose service life has been largely exhausted in the service of the present lessees. The Burlington house is also an older and less efficient elevator than that of the Santa Fe.

In the original report, pooling of these railroad-owned elevators at Chicago, Milwaukee, Kansas City, St. Joseph and

Omaha-Council Bluffs was recommended, as a means of securing more adequate revenues for use of such elevators, for the purpose of abating the preference, prejudice and unjust discrimination among grain shippers inherent in a situation wherein control of traffic by elevator lessees was reflected in lease terms and rentals, and as a method of operation which would ensure to the owning railroad and all interested shippers of grain the maximum elevator services of which such elevators are capable at the lowest possible cost for such service considering cost of operation and return on such property. If these elevators were leased or sold to a single railroad-owned agency for operation as public warehouses, they would no longer be pawns in the excessive-railroad competition game. In making this recommendation we referred to the possible reduction of cross-town switching which would result from unloading grain at the elevator owned by the line on which the traffic originated to the limit of the capacity of such facilities instead of cross-hauling the traffic between the terminal lines to accomplish delivery at elevators controlled by specific shippers under lease. When this matter was referred to the carriers, S. E. Shoup, Engineering Assistant to Regional Coordinator V. V. Boatner, made a careful study of the possible savings at Kansas City by reduction of cross-hauling, if these elevators were pooled, as suggested. As Section E of the Appendix we have reproduced Mr. Shoup's report, showing possible savings

of at least 45,389 car movements costing not less than $204,250.50 per annum. This amount would be a substantial part of the sum necessary to pay a fair net return on the property involved.

Both the lessees and the railroad committees have criticised the pooling proposal as impractical. It is claimed that lessees can secure better utilization of elevator capacity, because they can carry on mixing operations which would not be possible in connection with pooled public warehouse operations, and that in some unexplained and mysterious manner lessees are able to classify grain received and store it to better advantage than is possible in public warehouses. Such claims are unsound on their face. If a lessee operating a single railroad elevator of, say, 2,400,000 bushels capacity at Kansas City can solve all the storage and classification problems arising with respect to all the varieties and grades of grain handled, it is illogical to say that equally sound classification and storage of the same varieties of grain cannot be accomplished in all the railroad-owned elevators at Kansas City operating under a single management.

In cases where single elevators are directly operated by railroad owners all the problems met by shipper lessees of similar properties must be solved. For example, railroad-owned and operated elevators at Baltimore have successfully solved such elevation problems. At that port grain is received from small coastwise vessels as well as by rail. When I visited

these properties, wheat of high moisture content classed as garlicky and smutty was being received in coastwise vessels. No difficulty was experienced in warehousing this grain. The superintendent of one of these properties had extensive experience in operating a railroad-owned elevator at Kansas City as an employee of the lessee. He unhesitatingly expressed the opinion that railroad elevators at western markets could be successfully operated by the railroad owners and efficiently meet every requirement of the grain trade. The Federal Trade Commission in its report on "The Grain Trade" described the direct operation of elevators by railroad owners, as public warehouses, as follows:

UTILIZATION OF CAPACITY

It has been alleged that the railroad elevator as operated by the railroad agents for various shippers cannot hope to utilize the capacity of the house to any such degree as is possible in the case of the private operator who has entire control of the disposition of all grain received in store. However, an examination of the operating methods of the more efficient railroad elevators shows that such is not necessarily the case. The railroad elevator is, to be sure, required to store shipments received by various shippers classified into many varieties and grades. But it is generally possible to secure mixing orders from the owners of the grain whereby several grades or varieties may be mixed and re-inspected, with the result that certain bins may be released for new receipts. This may be explained by describing the operating methods of a certain elevator on the seaboard. The superintendent of that house has stated that in 1919 he handled about 36,000,000 bushels of grain and that at a conservative estimate he could have handled 100,000,000 bushels at a 25 per cent additional cost. Furthermore, as it was, the quantity handled amounted to a capacity turnover of about 18 times; that is, the rated capacity was utilized one and a half times every month on the average. At many times during 1919 there were from 65 to 70 different

grades of grain included in the stocks in store in this elevator. As an indication of the range of grades handled there were 79 different grades in store on June 21 and 46 different grades on July 6. To have kept all of these grades separate for the respective owners of the grain would have required special binning (such as has been practiced at Buffalo) and would have prevented economical operation since the plant contains but 159 bins. Such a condition, however, has been avoided by requesting owners to issue mixing orders when it is desired to release certain bins for additional receipts. At times such orders come from the owners on their own initiative. Frequently, however, the elevator calls up the board of trade inspection department and asks that mixing orders be secured to cover certain lots of grain represented by outstanding warehouse receipts. The chief inspector of the board thereupon arranges with the merchants interested to issue signed mixing orders which designate the grades, the specific quantities, and warehouse receipts covering these quantities so as to relieve the elevator operator of all responsibility for the mixing and reinspection of these lots of grain. This practice seems to be operated effectively at Baltimore through the harmonious cooperation of elevator operators the inspection department and individual shippers. In that way storage facilities are assured except at times of abnormal congestion and the elevator storage is utilized to an extent quite comparable with the results attained by most of the private operators.

This illustration shows that mixing in public warehouses is practical and, further, that utilization of elevator capacity does not depend upon continuance of present lessees in the enjoyment of the unlawful advantages which they now have under existing leases as compared with others who try to compete with them.

It is claimed that large-scale operations of grain merchandisers, such as Rosenbaum Grain Corporation, require the use of large sums of money not provided for in the proposed plan of pooled operation. The fact is, however, that the large sums of money used by lessees of railroad elevators in grain merchandising are borrowed from the banks. The warehousing of the principal stocks of American grain in public warehouses operated by persons or corporations not directly or indirectly engaged in grain merchandising operations will make warehouse receipts covering such grain much better security for bank loans than they are at present. As indicating the principles involved, I am quoting a portion of an address delivered by Mr. R. S. Hecht, President of the American Bankers Association, before the convention of the American Warehouseman's Association at New Orleans, Feb. 6, 1935: He said in part:

> In accepting warehouse receipts as collateral, the banker likes to feel that there is no question about the issuer of the receipt being in the fullest sense merely a custodian, i.e., that he is only taking care of the article in question for someone else, and has no pecuniary or proprietary interest of his own in the stored merchandise. Without in the remotest degree wishing to question the honesty of good faith of those who directly or through subsidiary or affiliated companies act as their own warehousemen and then use their receipts as collateral for bank loans, I must say frankly that as a general rule this procedure is frowned upon by bankers. Frequently warehouse receipts issued by such subsidiary units are so prepared as to meet all technical and legal requirements, but the banker nevertheless feels that it is difficult for any

> custodian to serve two masters, and he usually accepts such receipts only from those whose financial status is such that he would extend them about the same amount of credit on an open basis if he were asked to do so.

In such a situation, where the commodity dealt in may readily be made the basis for loans on which further business can be transacted, the net amount of capital required to engage in the business is relatively small as compared with the total value of grain or other commodities bought and sold which are, or may be, stored in public warehouses in the process of marketing. It is, therefore, but idle talk to say that, if members of the Leased Elevator Association should lose their preferred position as lessees of railroad elevators and such elevators were used as public warehouses, no grain merchandisers would extend their operations to handle the grain now handled by such lessees. However, we can see no valid reason why the merchandising business of lessees should not continue, using space in public warehouses on a fair, free competitive basis for such operations. To claim that such merchandising could not be continued by use of public warehouse facilities is to acknowledge that lessees require some unfair advantage over their competitors in order to carry on their grain merchandising business.

The railroad committees to whom this matter was referred offered several objections to the proposed pooling of railroad elevators and operation on a public warehouse basis. It is

claimed that the railroad owners of such elevators have no right to operate the properties as public warehouses. Section one of the Interstate Commerce Act includes elevation in the "transportation" which common carriers are required to furnish. In Allowances to Elevators by Union Pacific Railroad, 12 I.C.C. 85, page 87 the Interstate Commerce Commission defined the term elevation as follows:

> Elevation, as commonly understood among elevator men and among buyers and sellers of grain, signifies the unloading of grain from cars, or from grain carrying vessels, into a grain elevator and loading it out again after storage for a period of not to exceed ten days. The treatment or grading, cleaning and clipping of grain is not properly a part of elevation as the word is strictly used, and the retention of grain in an elevator beyond the period of ten days becomes storage and is not elevation.
>
> ***The law seems to clothe carriers with the right to furnish elevation at any point where it may be a convenience to shippers. The only restriction imposed by the act in that connection is that the elevation offered, like any other service a carrier may hold out to shippers as an inducement to send their traffic over its line, must be open to all on equal and reasonable terms. It is true, as is said, that the usual practice is for consignees to do their own unloading at destination. But clearly there is nothing in the law or in public policy that forbids a carrier to unload for them if it is done for all shippers alike.

It will be observed that in defining elevation the Commission did not say that treatment, cleaning, clipping or storage of grain might not be lawfully furnished by carriers, provided such additional services were furnished without unjust discrimination among competing shippers. These western railroads who own elevators and lease them to grain firms have the

same rights and the same power to operate such elevators as public warehousemen as the eastern railroads, who have always operated their elevators at Atlantic ports on a public warehouse basis. These eastern railroads have filed tariffs with the Commission governing charges for elevation and separately stated charges for storage, cleaning, drying, mixing or other services performed by public warehousemen which do not come within the definition of so-called transportation elevation included in Section one of the act. So far as we have been able to discover no one has ever questioned the right of eastern railroads to operate their elevators as public warehouses.

In view of the recognized right of individual railroads to operate their elevators as public warehousemen, they must have the same right to own and operate such facilities through a specially created agency, such as a terminal company, to which such elevators have been sold or leased for a term of years. In some cases this has been done at Atlantic ports. At Boston, elevators are operated by a subsidiary company which publishes and files its tariff covering public warehouse services with the Interstate Commerce Commission, just as individual railroads do in operating the Baltimore elevators. It is not my province to say whether the respondents ought to pool these elevators and operate them as public warehouses by leasing or selling them to some existing terminal company or whether a new special agency in corporate form or otherwise should hold

and operate the properties. These are matters of detail which could be handled at each terminal in the way which seems best, in view of the existence or absence of an agency to whom such new functions might be entrusted with necessary provision of skilled personnel to handle the problem.

It is possible that respondents can find some satisfactory solution for this problem other than the suggested pooling or unification of the elevators involved. Conferences between the interested carriers and representative groups of grain merchandisers might find the answer to this problem. If any such cooperative efforts to solve these difficulties be made the carriers and the grain trade should be mindful of the following objectives:

1

Railroad-owned terminal elevators should be used to their utmost capacity to serve the needs of the grain-carrying railroads and all producers, shippers or merchandisers of grain who may or do use such facilities.

2

The railroad owner should receive adequate, reasonable compensation for use of these elevators and should receive his full lawful freight charges for transportation of grain undiminished

by the indirect return of any part of such charges in connection with the furnishing of grain elevators or grain elevator services at less than cost by leasing or otherwise.

3

Such elevator services should be made available to all shippers on equal terms to be plainly stated in published tariffs.

It may be objected that the principles stated relate primarily to the protection of the railroads and do not adequately state the needs of the grain trade. It is not the duty of the Coordinator to consider the grain marketing problem as such and offer any suggestions intended to improve or change grain marketing practices, but both respondents and lessees have stated at length the complex inter-relation of grain marketing and the use of these elevator facilities. They insist that any disturbance of the status quo may affect the marketing processes. We have, therefore, been forced to give consideration to the various methods of leasing and operating terminal elevators as facilities for accumulation and storage of grain bought and sold at important grain markets. A study of grain-marketing practices in relation to terminal elevator operations impresses us with the importance of certain general principles which may be stated

as follows: Some method of operation should be found which will throw these facilities open to the public and create a disinterested custody of the grain which is necessary to give grain warehouse receipts the greatest collateral value and negotiability. To eliminate the temptation on the part of elevator operators to enrich themselves at the expense of one or more depositors of grain, the divorcement of public warehouse operations from grain merchandising and the operation of these elevators as public storage facilities on the basis of an open and published tariff applicable to all alike is essential. With respect to the broad fundamentals involved there does not seem to be any conflict between the best interests of the carriers and the best interests of the grain trade.

However, it must be conceded that the leasing practices of the railroads relating to these terminal elevators have been a powerful aid to the lessees in their competition with other grain dealers. In 1918, independent cash grain traders at Kansas City complained to the Director General of Railroads respecting the leasing of railroad elevators at that market. In an investigation made by Commissioner Harlan as to this complaint, the independent grain dealers claimed, among other things:

> That leases were originally made to firms when railroads were competitive and were always tacitly conditioned on the diversion by lessees to the rails of lessor, of all possible tonnage.
>
> That in these transactions the principal consideration was not the rental but freight earnings to the carrier, secured in exchange

> for valuable storage and elevator space turned to commercial firms at low rates.
>
> That records on file with the Interstate Commerce Commission will show that under lease terms in effect until recently, if not now, the earnings on leases in some instances netted only three-fourths of one per cent to two per cent.
>
> That an advance of rentals to net 6, 7 or 8 per cent to carrier would not effect a cure of existing monopoly at Kansas City, as only the leasing firms could work through the elevators to advantage.
>
> That the elevator charges now published and effective through leased houses in Kansas City are so high that no shipper can pay them and live, hence practically all business is now confined to the eight principal lessees.
>
> That this affords an airtight monopoly to the eight firms named. **
>
> That the continuation of existing leases or renewal of expiring contracts on any interest basis net to carrier and under any conceivable policing system will further and foster a monopoly that is intolerable and harmful to the producer, consumer, and grain merchant of the Southwest. **
>
> That any continuation of the present plan of leasing in our market will mean the loss of trade name to the independent grain shipper, the maintenance of his organization at an almost total loss, and if not immediately corrected, the annihilation of 40 to 50 sound grain firms and the positive establishment in prestige and power of the eight or ten firms now in monopoly and restraint of trade.

The approach to a monopolistic situation seems to be conceded by lessees of these elevators when they say, at page 47 of their brief, that during the five years 1928 to 1932, 100 per cent of the grain stored in leased elevators at

Kansas City and Milwaukee and 99.9 per cent of that stored in Chicago originated with the lessees acting as grain merchants.

In Mr. Goldstein's book, supra, he says, in part:

> In the Chicago grain market, the elevator operators are the most influential cash grain buyers, and are an important factor in future trading and in export trade; and, operating as grain dealers, they are the largest merchandisers and distributors in the trade.

And at page 256 he says:

> The devices used by merchants of grain to procure control of warehouse facilities, and the advantages of such control, have already been discussed; the power of these advantages, when used in connection with the rules of the Board of Trade relating to the delivery of grain, was clearly illustrated to the legislative committee by the disastrous effects resulting from the application of the Carlot Delivery Rule, in May, 1922. The evidence also disclosed to the Committee that through its public elevator affiliations and the special advantages and power given to the elevator group as a result of the practices which grew up in connection therewith, the operator group was able to, and, in fact, for many years, did procure control of and dominate the policies of the (Chicago) Board of Trade. By such advantages of its position, the elevator group potentially could and did, in certain instances, discriminate against whole groups of traders and permitted arbitrary fluctuations of prices, which were not based upon economic conditions, nor upon the laws of supply and demand.

Mr. Goldstein, in his book, agrees with the Federal Trade Commission, which found in substance that grain dealers who lease and operate railroad elevators were controlling the markets in various ways, and that their operations tended to limit or destroy legitimate competition in grain marketing.

All these inter-related facts and conclusions of law and fact support the view that no mere modification of existing leases will remedy the deplorable situation existing at important Western markets, including Chicago, Kansas City, St. Joseph, Omaha-Council Bluffs and Milwaukee, but that the unified operation of railroad elevators at each point as public warehouses, free from control of grain merchandisers, is necessary to secure maximum use of these facilities for shippers and carriers, to prevent waste of railroad property and investments and to free the grain markets from artificial and unlawful restraints which are injurious to the railroads, producers and consumers of grain and those who would compete for the purchase and sale of grain if, and when, more normal and wholesome conditions are restored.

In this connection it seems appropriate to call attention to the fact that the Federal Trade Commission is now engaged in an investigation of grain marketing practices with special reference to the grain warehousing problem, as part of its inquiry relating to agricultural income in response to provisions of Public Resolution 61, 74th Congress First Session. The forthcoming report of the Federal Trade Commission may be expected to deal comprehensively with the grain marketing situation.

On further consideration of this matter I renew my recommendations that existing leases and the entire practice of leasing be condemend as productive of violations of sections 2, 3 and 6 of the Interstate Commerce Act. The wasteful practices involving inefficient use of elevator facilities, excessive cross-hauling of grain, and loss of railroad revenues can be remedied by cooperation of respondents and the grain trade. Further consideration of this matter by the railroads and shippers is justified. Such furtner attempts to find a constructive solution of this question may result in voluntary adoption of pooling or unification of railroad elevator operation as public warehouses at such points as Chicago, Milwaukee, Kansas City, St. Joseph and Omaha-Council Bluffs. Possibly an even better method of handling these elevators can be devised. I sincerely hope that the parties interested may bring forward proposals which will produce results in harmony with the provisions of the Interstate Commerce Act and the Emergency Transportation Act.

Respectfully submitted,

J. A. LITTLE
Research Assistant

Appendix - Section A
(Reproduced from Report of August 30, 1939.)

ANALYSIS OF RESULTS OF OPERATION
TERMINAL LINES
NATIONAL GRAIN AND GRAIN PRODUCTS FIRMS TO PRIVATE OPERATORS

Name of Railroad	Location of Elevator	Name of Lessee	Capacity of Elevator Bushels	Reported Book Value Dollars	Total Net Income Five Years Dollars	Average Annual Net Income Dollars	Rate of Return on Book Value: Total Five Yr. Period (Per Cent)	Rate of Return on Book Value: Average Annual Five Yr. Period (Per Cent)	Net Income per Bushel Capacity: Total Five Yr. Period (Cents)	Net Income per Bushel Capacity: Average Annual Five Yr. Period (Cents)
Atchison Topeka & Santa Fe Ry.	Chicago, Ill.	Stratton Grain Co.	1,403,300	839,572.	(d) 2,689.14	(d) 537.83	(d) -.32	(d) -.07	(d) .16	(d) -.03
"	Kansas City, Kans.	Davis Dolan Merrill Grain Company	10,599,400	3,788,622.	64,890.00	12,978.00	2.83	.565	.4	.1
Alton R.R.	Kansas City, Kans.	Volcott & Lincoln Inc.	735,000)	531,459.80	27,939.79	5,587.95	5.26	1.05	1.94	.3
Chicago & North Western	Chicago, Ill.	Hall Baker Grain Company	1,100,000)							
"	Chicago, Ill.	Rosenbaum Grain Co.	10,000,000	4,949,882.	471,688.85	94,216.85	9.52	1.90	4.71	.94
"	Milwaukee (Straits)	Donahue Stratton	1,550,000	682,663.	(d) 53,059.59	(d) 10,607.07	(d) 8.55	(d) 1.71	(d) 3.422	.66
"	Milwaukee (Kinnickinnic)	" "	3,350,000	1,447,587.	69,339.80	13,867.84	4.79	.96	2.07	.41
"	Green Bay, Wisc.	Cargill Grain Co.	400,000	203,957.	43,675.00	8,735.00	21.44	4.29	10.92	2.18
"	Council Bluffs, Ia.	Updike Grain Co.	2,350,000	1,496,842.	97,963.62	19,592.72	6.784	1.34	4.17	.83
"	Sioux City, Ia.	J. J. Mullaney	90,000	(b) 114,173.	14,677.24	3,719.31	12.81	3.20	16.55	4.13
Chesapeake & Ohio Ry.	Chicago, Ill.	Rosenbaum Bros.	4,000,000	999,169.	90,939.62	19,388.92	9.71	1.94	2.42	.48
Chicago Burlington & Quincy R. R.	Kansas City, Mo.	Hall Baker Grain Co.	2,400,000	1,164,992.84	189,666.48	37,933.28	16.29	3.26	7.90	1.58
"	St. Louis, Mo.	Farmers National Warehouse Corp.	2,300,000	980,846.36	89,829.73	18,965.92	8.75	1.75	3.73	.75
"	St. Joseph Mo.	Burlington Public Elevator Company	925,000	388,660.02	134,905.82	26,981.16	40.9	8.18	14.54	2.91
"	Omaha, Nebr.	" Nebr. Iowa Grain Co.	1,800,000	994,109.88	15,358.23	3,068.11	2.82	.56	1.28	.26
"	Council Bluffs, Ia.	Updike Grain Company	450,000	224,599.87	13,661.18	2,732.23	6.07	1.21	3.04	.61
"	" "	Farmers Terminal Elevator Co.	2,000,000	678,880.81	88,861.39	16,980.28	13.11	2.62	4.44	.85

(d) deficit (b) covers four years operations

ANALYSIS OF RESULTS OF OPERATION

RAILROAD OWNED GRAIN ELEVATORS LEASED TO PRIVATE OPERATORS

Name of Railroad	Location of Elevator	Name of Lessee	Capacity of Elevator Bushels	Reported Book Value Dollars	Total Net Income 1928-1932 Dollars	Average Annual Net Income Dollars	Rate of Return on Book Value: Total Five Years	Rate of Return on Book Value: Average Annual Income	Net Income per Bushel Capacity: Five Year Average Annual Income	Net Income per Bushel Capacity: Average Annual Cost
Kansas City Sou. Ry.	Kansas City	Moore Seaver Grain Co.	1,570,000	392,867.	(d) 20,903.	(d) 4,180.60	(d) 5.32	(d) 1.06	(d) 1.33	(d) .27
" " "	Morris Grain Co.		2,750,000	673,676.	23,229.	4,645.80	3.45	.69	.845	.169
Missouri Kansas Texas Lines	Kansas City	Uhlmann Grain Co.	3,300,000	1,136,456.61	97,937.40	19,587.48	8.58	1.72	2.97	.59
Missouri Pacific	Kansas City	Continental Export Co.	2,500,190	1,453,042.21 (1½)	95,927.55	63,951.70	6.60	4.40	3.84	2.56
" "	Kansas City	Vandervlyce Lynde Co.	277,000	246,978.73	17,156.96 (2½)	6,865.58	6.95	2.78	6.19	2.48
" "	St. Louis, Mo.	Continental Export Co.	3,762,500	2,047,800.45 (4½)	306,471.19	68,549.20	15.06	3.35	8.20	1.82
" "	Omaha, Nebr.	Farmers National Whse.Corp.	1,421,000	601,511.75	64,262.14	12,852.43	10.68	2.14	4.52	.90
New York Central	Chicago, Ill. (Indiana Harbor)	Bartlett Frazier Grain Co.	1,250,000	374,838.00	56,066.00	11,213.60	14.98	2.99	4.49	.89
"	Chicago, Ill. (Kensington Ill.)	Kensington Elevator Company	325,000	341,138.00	21,149.00	4,229.80	6.20	1.24	6.51	1.30
North Pacific	Seattle, Wash.	Dock & Elevator Co.	767,000	319,757.00	25,744.00	5,148.80	8.05	1.61	3.36	.67
Southern Pacific	Galveston, Texas	Sunset Elevator Company	1,000,000	438,215.95 (3½)	91,841.72	26,240.48	19.04	5.46	9.18	2.66
St. Louis San Francisco Ry.	Kansas City (Rosendale)	Lathrop Marshall Grain Co.	(x) 950,000	284,428.17 (4)	48,833.06 (4)	9,766.61	(4) 16.99	(4) 3.40	(4) 5.14	(4) 1.03
Terminal Rr Assn. of St. Louis	St. Louis, Mo.	Plant Flour Mills	500,000	118,169.62	27,500.00	5,500.00	23.28	4.66	5.50	1.10
Texas City Terminal Ry.	Texas City, Tex.	Texas City Terminal Railway Co.	500,000	420,000.00 (4)	96,195.01	24,048.75	22.95	5.74	19.24	1.85

(1½) covers 1½ years only. (2½) covers 2½ years only. (3½) covers 3½ years. (4) covers four years.

(x) combined capacity two elevators.

ANALYSIS OF RESULTS OF OPERATION

RAILROAD OWNED GRAIN ELEVATORS LEASED TO PRIVATE OPERATORS

Name of Railroad	Location of Elevator	Name of Lessee	Capacity of Elevator Bushels	Reported Book Value Dollars	Total Net Income 1928-1932 Dollars	Average Annual Net Income Dollars	Rate of Return on Book Value: Total Five Years	Rate of Return on Book Value: Average Annual Income	Net Income per Bushel Capacity: Five Year Average Annual Income	Net Income per Bushel Capacity: Average Annual Cost
Chicago Great Western Ry.	Kansas City, Mo.	Great Western Elevator Co. Inc.	990,300	272,194.	8,624.56	1,724.99	3.08	.65	.89	.18
" "	Omaha, Nebr.	Farmers National Warehouse Corp.	1,980,000	497,576.	96,406.24	18,381.25	18.56	3.71	5.85	1.17
Chicago Milwaukee St. Paul & Pacific	Milwaukee, Wis.	Cargill Securities Co.	2,941,360	1,088,522.	95,688.00	19,537.60	4.86	.97	1.79	.36
" "	Kansas City, Mo.	Simonds, Shields Landauer Company	2,952,600	779,350.	89,866.00 (4)	5,969.20 (4)	3.63	(4) .77	(4)1.05	(4) .21
" "	South Omaha, Nebr.	Updike Grain Company	494,600	90,636.	9,249.00	1,849.80	10.21	2.04	2.13	.43
" "	Council Bluffs, Ia.	Rye & Jones Grain Co.	357,000	(x) 153,782.	(2) 1,070.00	515.00	.67	.34	.29	.15
Chicago Rock Island & Pacific	South Chicago, Ill.	J. C. Shaffer Grain Co.	4,000,000	1,083,219.	(4) 34,231.51	(4) 6,846.30	(4) 3.16	(4) .63	(4) .86	(4) .22
" "	Kansas City, Mo.	Simonds Shields Landauer Grain Co.	4,000,000	1,230,992.30	26,813.61	5,362.72	2.18	.44	.67	.13
" "	Council Bluffs, Ia.	Bartlett Frazier Grain Company	1,100,000	418,463.55	34,064.23	6,812.84	8.14	1.62	3.09	.62
Chicago & Erie	Chicago, Ill.	Cleveland Grain Co.	350,000	(d) 232,318.00	(d) 1,848.48	(d) 369.69	(d) .71	(d) .14	(d) .47	(d) .01
Great Northern	Superior, Wis.	A. D. Thomson & Co.	12,500,000	3,088,559.00	777,997.00	155,599.40	25.19	5.04	6.22	1.24
" "	Sioux City, Ia.	Stanley Grain Co.	325,000	230,909.00	(2) 14,771.00	(2) 9,385.50	8.14	4.07	4.88	2.44
Great Trunk Western	Chicago, Ill.	Edward P. Bacon Grain Co.	990,000	234,564.00	24,826.77	4,965.35	10.6	2.12	5.02	1.10
Illinois Central	Chicago, Ill.	Morris Grain Company	900,000	247,180.00	(d) 2,281.95	(d) 465.39	(d) .93	(d) .18	(d) .26	(d) .05
" "	New Orleans, La.	Central Ele. & Whse. Co.	(All out of service and being demolished)							
" "	Omaha, Nebr.	Council Bluffs Elevator Co.	1,150,000	706,650.00	120,770.83	24,154.16	17.80	3.56	10.54	2.10

(x) C. M. St. P. & P. Ry. has $3,095.66 investment balance being paid Ry Trade Co. on monthly installments basis

(2) two years operations

ANALYSIS OF RESULTS OF OPERATION
WESTERN LINES
RAILROAD OWNED GRAIN ELEVATORS LEASED TO PRIVATE OPERATORS

Name of Railroad	Location of Elevator	Name of Lessee	Capacity of Elevator	Reported Book Value Dollars	Total Net Income Five Years 1928-1932 Dollars	Average Net Income (annual) Dollars	Rate of Return on Book Value: Total Five Year Income Per Cent	Rate of Return on Book Value: Average Annual Income Per Cent	Net Income per Bushel Capacity: Five Year Period Cents	Net Income per Bushel Capacity: Average Annual Income Cents
Union Pacific	Portland, Ore.	Northwestern Dock & Elevator Co.	663,000	201,971.57	77,307.24	15,461.45	38.28	7.65	11.66	2.75
" "	" "	Kerr, Gifford & Co., Inc.	1,100,000	511,503.60	95,690.65	19,138.13	18.71	3.74	8.70	1.74
Union Terminal Railway Company	St. Joseph, Mo.	Bartlett Frazier Co.	2,500,000	822,414.00	($^{2}/_{3}$) 22,973.00	6,265.35	2.79	.76	.92	.25
Wabash Rr. Co.	Chicago, Ill. (Rialto)	Star Grain Co.	2,625,566	1,262,817.00	315,380.66	63,056.13	24.95	4.99	12.01	2.40
Wabash Rr. Co.	Chicago, Ill. "33rd Street"	Bartlett Frazier Co.	1,500,000	279,808.00	(4) 22,756.72	(4) 4,551.34	(4) 8.13	(4) 1.62	(4) 1.52	(4) .30
Wabash Rr. Co.	Kansas City	Uhlmann Grain Company	4,137,100	1,230,625.00	121,602.52	24,320.52	9.88	1.98	2.94	.59

($^{2}/_{3}$) covers $^{2}/_{3}$ years.
(4) deficit

Appendix - Section B

Tabulation of Valuation estimates of various elements of Value of Grain elevators located at Kansas City and Chicago, submitted by the Bureau of Valuation of the Interstate Commerce Commission.

	Santa Fe Elevator at Kansas City	Burlington Elevator at Kansas City	Milwaukee Elevator at Kansas City	Rock Island Elevator at Kansas City	Wabash Elevator at Kansas City	Chgo.&Ohio Elevator at Chgo.,Ill.	Northwestern Elevator at Chicago,Ill.	Rock Island Elevator at Chgo.,Ill.	N.Y. Cent. Elevator at Ind. Harbor (Chicago)
Original Cost to Date, exclusive of Land	$4,046,051	$1,255,409	$ 707,252	$1,176,348	$1,284,974	$ 889,220	$4,898,074	$1,383,406	$ 373,781
Original Cost to Date, exclusive of Land, reduced in proportion to depreciation	3,256,025	988,327	162,665	858,734	1,092,228	♯	3,773,698	594,865	250,433
Cost of Reproduction New based on 1934 Period Prices	4,213,106	1,364,709	1,898,691	1,509,495	1,272,305	1,840,072	5,707,085	2,019,416	605,117
Cost of Reproduction Less Depreciation based on 1934 Period Prices	3,378,488	1,086,817	893,114	1,108,380	1,082,187	1,064,335	4,457,378	874,926	403,883
Cost of Reproduction New based on 1934 Spot Prices	4,300,875	1,385,151	1,316,899	1,509,495	1,280,897	1,864,936	5,823,774	2,046,595	617,950
Cost of Reproduction Less Depreciation based on 1934 Spot Prices	3,448,387	1,101,504	897,105	1,108,380	1,089,747	1,078,717	4,528,139	886,690	412,180
Present Value of Lands.	3,848	4,800	4,112	5,875	3,540	86,318	28,400	128,718	3,090
Annual Depreciation Rates percent	1.5%	1.5%	3%	1.5%	2%	1.5%	1.5%	1.5%	1.5%
Capacity bushels	10,589,400	2,400,000	2,852,600	3,731,280	4,137,180	4,000,000	10,000,000	4,500,000	1,250,000

♯ The usual method for depreciating original cost has not been followed in this case, for the reason that these facilities were purchased in a depreciated condition and subsequently rehabilitated.

BUREAU OF VALUATION

January 29, 1936

SUBJECT: The Atchison, Topeka and Santa Fe Railway Company
Grain Elevator at Argentine, Kansas.

MR. E. I. LEWIS,
DIRECTOR:

In response to the request of Mr. Leslie Craven of the Federal Coordinator's staff, contained in his letter to you dated November 20, 1935, we submit herewith our estimate of the elements of value of the grain elevator located at Argentine, Kansas, owned by the Atchison, Topeka and Santa Fe Railway Company and leased to Davis-Noland-Merrill Grain Company.

Original Cost to Date, exclusive of Land ...	$4,045,031*
Original Cost to Date, exclusive of Land reduced in proportion to depreciation	3,236,025
Cost of Reproduction New based on 1934 Period Prices	4,213,106
Cost of Reproduction Less Depreciation based on 1934 Period Prices	3,378,488
Cost of Reproduction New based on 1934 Spot Prices	4,300,275
Cost of Reproduction Less Depreciation based on 1934 Spot Prices	3,448,387
Present Value of Lands	3,843

*Costs of land not included for the reason that such costs could only be obtained on an arbitrary pro rata basis.

There is also furnished certain other information as requested by Mr. Craven.

Grain Elevator at Argentine, Kan. --- 2.
A.T.&S.F.Ry.Co.

Descriptive

(1) The elevator property used by the Grain Company on December 31, 1934, consisted of the following units:

212 reinforced concrete storage tanks
Reinforced concrete headhouse
Structural steel, corrugated iron dumper house
Brick bleacher house, one story
Brick office building and washroom, two stories
Brick power house, one story
Brick dust house, two stories
Concrete drier house
Brick pump house
Concrete transformer house
Garage
Septic tank and water, sewer, and drain lines

All of the above units are in active service.

The foundations consist of concrete mattresses on creosoted timber piles. The foundations are waterproofed and very little trouble is experienced with water.

The coverings are of tar and gravel type on factory type roofs, extending generally over the tops of all the tanks.

The entire plant is modern and well designed. It is in a high state of maintenance and is exceptionally clean and well kept. It is protected against fire by an automatic sprinkler system and high pressure fire pump. There is a Zelany temperature control system and up-to-date electric equipment and machinery.

(2) 32 storage tanks were built in 1906, 40 in 1913, 44 in 1915, and 96 in 1931. The headhouse and the remaining structures were built in 1925.

(3) The land involved consists of an irregular parcel located within the lessor's Argentine Yard.

(4) 72 storage tanks are 24' in diameter by 79' high, with interspace bins.
44 of the tanks are 37' in diameter by 79' high, with interspace bins.
The remaining 96 are 25' in diameter by 90' high, with interspace bins.
The headhouse is 61.3'x194'x200' high.

Grain Elevator at Argentine, Kan. --- 3.
A.T.&S.F.Ry.Co.

(4) cont. The dumper house is 120'x194' with 4 dumpers.
The bleacher house is 25.7'x29.5'.
The office building and washroom is 50.2'x75.3'.
The power house is 48'x179'.
The dust house is 24'x52.6'.

Total storage capacity of the elevator is 10,529,400 bushels.

(5) There is a track layout totaling 20 tracks with a total length of 70,300 track feet, serving this elevator. It consists of six car puller tracks to the dumper house and storage yards for empty and loaded cars on the east and west of the dumper house. These tracks have not been included in the above estimates as they are not leased to the Grain Company.

(Signed) C. H. Spencer
Head Valuation Engineer

(Signed) R. A. Lacey
Head Auditor Property Changes

(Signed) A. B. Manly
Head Land Appraiser

Appendix - Section C.

Statement of Investments, Income and Expenses of Leased Railroad Elevators prepared by the Bureau of Accounts of the Interstate Commerce Commission.

ATCHISON, TOPEKA AND SANTA FE RAILWAY COMPANY

Elevator at Argentine, Kansas - Known as elevator "A"
Leased to Davis - Pollard - Merrill Grain Co. - From June 30, 1924.

	July 1, 1926	Adds to Investment 1926	1927	1928	1929	1930	1931	1932	1933	1934	January 1 to June 30, 1935	Total
Investment at close of period	$8,799,345.27	$ 499,531.75	$8,952,382.38	$8,952,382.38	$8,956,888.46	$8,956,354.27	$8,956,354.27	$8,956,354.27	$8,956,354.27	$8,956,354.27	$8,956,354.27	$8,956,354.27
Rentals received		14,176.00	60,344.56	60,344.56	60,344.56	60,344.56	115,784.56	60,344.56	60,344.56	60,344.56	30,172.28	460,211.33
Net return		7,175.37	60,344.56	64,851.65	64,851.65	64,851.65	64,851.65	64,851.65	64,851.65	64,851.65	32,425.82	493,961.68
Per cent of annual return to investment		1.436%	0.674%	0.724%	0.724%	0.724%	0.724%	0.724%	0.724%	0.724%	0.724%	5.516%
		0.163%	0.674%	0.724%	0.724%	0.724%	0.724%	0.724%	0.724%	0.724%	0.724%	5.516%

Lease dated May 2, 1924, provides for stated rental of $60,344.56 per annum, plus 6% per annum on cost of replacing boiling. Supplemental lease provides for additional rental of 6% per annum on the cost of improvements made by the lessee in the nature of water and sewer line, system for and water and Department for and others. The cost of the improvements were included in the carrier's investment account.

(A) - Character of expenses borne by carrier:

Maintenance	$	1,456.79	$ 799.54	$ 4,048.19	$ 1,497.54	$ 1,497.73	$ 16,795.80	$ 2,234.44	$ 2,274.93	$ 14,531.54	$ 11,866.78	$ 69,003.79
Insurance		2,742.70	4,777.83	4,777.83	4,777.83	4,777.83	4,777.83	4,777.83	4,777.83	1,593.28	1,593.28	34,979.48
Taxes		25,854.80	24,857.21	70,525.53	73,656.32	73,656.32	63,904.93	64,784.18	69,284.24	71,535.36	35,767.68	553,827.57
Total	$	30,054.29	$ 30,434.58	$ 79,351.55	$ 79,931.69	$ 80,071.88	$ 85,478.56	$ 71,796.45	$ 76,337.00	$ 87,660.18	$ 49,227.74	$ 657,810.84

The lease provides that the carrier shall assume the cost of insurance and taxes and all outside repairs, extraordinary repairs needed on account of defective plans or construction and all renewals of the building or machinery, repair charges connected with fire loss and replacement of boilers. The lessee maintains (A) and declares that any of the maintenance expenses borne by the carrier were of the character which the lessee is required to assume.

Attention is directed to the fact that the reported maintenance charges do not include any account for depreciation. Under the Commission's accounting regulations accounting for depreciation of fixed property is optional with the carrier.

CHICAGO, BURLINGTON AND QUINCY RAILROAD COMPANY

Elevator at North Kansas City, Missouri - Known as "Murray Elevator", sometimes designated "Burlington A" Elevator,
Leased to Norris Grain Co., from January 1, 1926, to May 31, 1950, and to Hall-Baker Grain Co., from June 1, 1950, assigned to Farmers National Warehouse Corp. June 1, 1954.

	January 1, 1926	YEAR 1926	1927	1928	1929	1930	1931	1932	1933	1934	January 1, 1935 to May 31, 1935	Total
Investment at close of period	$1,145,534.62	$1,146,008.01	$1,145,370.01	$1,145,850.18	$1,158,917.49	$1,160,774.77	$1,165,705.10	$1,166,347.34	$1,167,158.50	$1,167,382.12		
Rentals received		40,999.92	40,999.92	40,999.92	40,999.92	40,999.92	50,840.84	50,882.92	50,882.92	50,882.92	20,176.05	$4,74,583.85
Expenses borne by carrier (A)		8,913.17	13,080.83	8,881.14	9,098.07	18,681.77	15,834.75	11,465.60	9,583.85	14,137.88	4,856.60	113,176.66
Net return		41,086.75	36,979.09	41,175.70	40,901.85	31,318.15	35,005.09	39,356.92	41,298.07	36,681.04	16,919.45	361,407.19
Per cent of annual return on investment		3.59%	3.23%	3.60%	3.57%	2.70%	3.01%	3.38%	3.54%	3.14%	3.48%	

Lease dated January 1, 1926, provides for a stated rental of $50,000.00 per annum, unless a different rate is required by the Interstate Commerce Commission or any other Federal or State Tribunal, plus 6% per annum on the cost of subsequent improvements and betterments. The same provision is contained in lease dated June 1, 1950. The investment increases from January 1, 1926, to May 31, 1935, aggregated $21,847.50, while rental additions within that period were confined to 6% on $13,708.96. The difference of $8,138.54 in investment increase upon which no additional rental was computed is for adjustment of an $1,800.00 item relating to the period prior to lease and other items aggregating $6,338.54 which under the Commission's accounting regulations are chargeable to investment, but which were considered by the carrier as not of a character solely benefiting the lessee.

The investment as of January 1, 1926, is comprised of a value of $961,146.02 as of June 30, 1917, fixed by the Commission in the valuation of the carrier's property, plus actual cost of improvements made from July 1, 1917 to December 31, 1925, amounting to $181,388.60. The cost of all improvements were included in the carrier's investment account.

(A) Character of expenses borne by carrier:

Maintenance	$ 3,305.87	$ 6,971.09	$ 2,805.19	$ 2,845.07	$ 11,808.60	$ 7,614.19	$ 3,538.77	$ 1,817.38	$ 5,192.86	$	$
Insurance	1,675.76	1,654.82	1,380.70	1,369.00	1,369.17	1,220.56	1,303.43	1,305.67	1,303.02	782.34	44,900.76
Taxes	3,931.54	4,454.92	4,695.25	4,884.00	5,504.00	6,996.00	6,623.40	6,460.80	7,388.00	360.10	12,744.23
Total	$ 8,913.17	$ 13,080.83	$ 8,881.14	$ 9,098.07	$ 18,681.77	$ 15,834.75	$ 11,465.60	$ 9,583.85	$ 14,137.88	2,304.16	29,531.67
										$ 4,856.60	$113,176.66

The lease requires that the carrier shall assume the cost of repairs necessitated by accidents for which lessee is not responsible and such permanent repairs and replacements as may be necessary. The carrier's records do not contain sufficient descriptive detail of the nature of maintenance work performed to clearly indicate in every instance whether the work was of a character that should be assumed by the lessee. There is no specific provision in the lease for cost of insurance and taxes to be borne by the carrier. Replacements necessary on account of accidents and fire are required to be made at carrier's expense and any protection with respect thereto may, therefore, be assumed, to be at the carrier's expense.

Attention is directed to the fact that the recorded maintenance charges do not include any amount for depreciation. Under the Commission's accounting regulations accounting for depreciation of fixed property is optional with the carrier.

NEW YORK CENTRAL RAILROAD COMPANY

Elevator at Indiana Harbor, Indiana
Leased to Bartlett - Frazier Company, from July 1, 1920.

	July 1, 1920	July to December 1920	1921	1922	1923	1924	1925	1926	1927	1928	1929	1930	1931	1932	1933	1934	January to October 1935	Total
Investment at close of period	$369,285.01	$369,285.01	$369,285.01	$370,736.39	$371,054.51	$371,054.51	$371,054.51	$371,054.51	$371,054.51	$371,545.75	$375,114.64	$375,602.83	$375,602.83	$375,602.83	$375,602.83	$375,602.83	$375,602.83	
Rentals received		11,500.00	23,000.00	23,088.84	23,108.39	23,108.92	23,108.92	23,108.92	23,108.92	23,108.92	23,108.92	25,108.90	23,108.92	23,108.92	23,108.92	23,108.92	19,257.43	$354,092.76
Expenses borne by carrier - (A)		7,786.29	5,241.94	5,947.74	14,498.46	6,536.12	9,428.30	10,879.49	25,526.95	17,904.30	7,834.90	19,112.74	8,009.53	7,155.09	6,006.97	6,387.90	5,466.64	163,723.36
Net return		3,713.71	17,758.06	17,081.10	8,609.93	16,572.80	13,680.62	12,229.43	• 2,418.03	5,204.62	15,274.02	5,996.16	15,099.39	15,953.83	17,101.95	16,721.02	13,790.79	190,369.40
Per cent of annual return to investment		2.01%	4.81%	4.61%	2.32%	4.47%	3.69%	3.29%	• 0.65%	1.40%	4.07%	1.06%	4.02%	4.25%	4.55%	4.45%	4.41%	

Lease dated July 1, 1920, provides for a stated rental of $23,000.00 per annum, plus 6% on the cost of additions, changes or betterments made at lessee's request. Improvements thus requested by the lessee were made in 1922 and 1923 and resulted in increasing rental to $23,108.92. In renewing the lease effective July 1, 1929, it was considered the carrier should assume the expense of remodeling the electric wiring system to comform to the regulations of Insurance Underwriters and of improving the water supply system on the theory that the rewiring would result in reducing the insurance cost and that the lessee was entitled to obtain an adequate water supply. Accordingly the renewal lease provided for a continuation of the rental of $23,108.91 with increase of 6% upon cost of improvements made at request of lessee.

The cost of improvements was included in the carrier's investment account.

(A) - Character of expenses borne by carrier:

Maintenance	$ 3,943.05	$ 1,763.25	$ 2,139.49	$ 9,597.82	$ 1,127.29	$ 3,865.30	$ 4,762.49	$ 18,851.95	$ 10,944.30	$ 505.90	$ 11,669.74	$ 533.28	$ 317.09	$ 283.22	$ 362.90	$ 421.97	$ 70,682.04
Insurance	457.74	485.19	243.25	1,025.64	1,254.83	1,440.00	1,560.00	1,560.00	2,400.00	2,400.00	2,400.00	2,400.00	2,400.00	2,400.00	2,400.00	2,000.00	26,766.65
Taxes	3,385.50	3,053.50	3,565.00	3,875.00	4,154.00	4,123.00	4,957.00	5,115.00	4,960.00	4,929.00	5,053.00	5,076.25	4,438.00	3,323.75	3,625.00	3,041.67	66,274.67
Total	$ 7,786.29	$ 5,241.94	$ 5,947.74	$ 14,498.46	$ 6,536.12	$ 9,428.30	$ 10,879.49	$ 25,526.95	$ 17,904.30	$ 7,834.90	$ 19,112.74	$ 8,009.53	$ 7,155.09	$ 6,006.97	$ 6,387.90	$ 5,466.64	$163,723.36

The lease dated July 1, 1920, which was effective during three terms ended June 30, 1929, made no specific provision for maintenance costs to be borne by the carrier. The carrier's obligation may be implied in exceptions to the provisions for costs to be assumed by the lessee to the effect that "Lessee shall not be bound to make repairs made necessary on account of fire, unless caused by its negligence, nor repairs made necessary by the unusual action of the elements, nor to renew in their entirety the engines, boilers or furnaces." The investigation disclosed that there was considerable controversy between the carrier and the lessee regarding the maintenance expenses to be borne by them, respectively, under the ambiguous provisions of the lease. The carrier's officials generally interpreted the lease as requiring the lessee to assume all maintenance costs not specifically embraced in the exception referred to. This interpretation, however, did not prevail in the actual disposition of the maintenance costs as the carrier actually assumed certain heavy maintenance costs for which its obligation under the lease was not clearly established and which were necessary in order to maintain the plant and buildings in proper operating condition. Apparently the carrier considered it advisable to assume this expense rather than incur the risk of the lessee's vacating the premises due to their otherwise becoming unfit for operation and thus, because of the absence of a demand for the elevator, be left without a tenant.

Lease effective July 1, 1929, provides that carrier "shall, upon written notice, make ordinary repairs to the buildings." The maintenance provisions of this lease are not sufficiently clear to definitely indicate which party is responsible for particular items of cost and it is not apparent that any of the expenses borne by the carrier could have been recovered from the lessee under the indefinite provisions of the lease.

Taxes borne by the carrier are not provided for in the leases prior to the one effective July 1, 1929, and the latter lease specifically provides for taxes assumed since its effective date. All leases are silent on the matter of insurance costs to be borne by the carrier.

Attention is directed to the fact that maintenance charges do not include any amount for depreciation. Under the Commission's regulations accounting for depreciation of fixed property is optional with the carrier.

• Indicates loss.

Elevators at South Chicago, Illinois - Known as Elevators "C", "C Annex" and "D". Leased to J. C. Shaffer Grain Company, from October 1, 1924, to June 30, 1934, and to Farmers National Warehouse Corporation from July 1, 1934.

	October 1, 1924	October to December 1924	YEAR 1925	1926	1927	1928	1929	1930	1931	1932	1933	1934	January to June 1935	Total
Investment at close of period	$940,699.58	$940,699.58	$942,529.04	$944,891.54	$944,530.27	$946,528.27	$946,278.27	$946,446.86	$946,446.86	$946,446.86	$946,446.86	$946,446.86	$946,446.86	
Rentals received		8,622.00	33,498.00	33,300.00	33,300.00	33,300.00	33,300.00	33,300.00	37,382.23	37,382.23	33,300.00	33,300.00	16,650.00	$366,634.46
Expenses borne by carrier - (A)		5,797.10	23,741.18	63,944.57	90,145.22	53,980.66	63,128.94	38,479.09	26,436.43	23,819.75	28,307.42	30,364.49	10,313.38	458,458.23
Net return		2,824.90	9,756.82	*30,644.57	*56,845.22	*20,680.66	*29,828.94	* 5,179.09	10,945.80	13,562.48	4,992.58	2,935.51	6,336.62	*91,823.77
Per cent of annual return on investment		1.20%	1.04%	* 3.25%	* 6.02%	* 2.19%	* 3.15%	* 0.55%	1.16%	1.43%	0.53%	0.31%	1.34%	

Lease dated October 1, 1924, provides for stated rental of $34,488.00 per annum for the period from October 1, 1924, to February 28, 1925, and $33,300.00 per annum thereafter, the reduction being in consideration of the carrier being released from liability for loss and damage to lessee's property. Carrier's files indicate the stated rental of $34,488.00 was based on 5% of a valuation of $689,760.00 established by an appraisal made in July 1924, conforming with recommendations of the Commission in Docket No. 5218.

Lease dated July 1, 1929, being a renewal lease for term ended June 30, 1934, provides for the stated rental of $33,300.00 per annum and under supplemental letter agreement effective June 30, 1930, one cent per bushel for each bushel of grain less than 1,000,000 bushels shipped from points on carrier's system beyond Joliet, Ill., to the leased elevator during each year ended June 30. The carrier maintains appropriate record of shipments to elevator upon which additional rental is to be based. Only during the year ended June 30, 1932, was less than 1,000,000 bushels shipped, as a result of which an additional rental of $8,164.46 was assessed.

Lease dated May 5, 1934, effective July 1, 1934, continues the stated rental fixed in preceding lease, plus 6% per annum on the cost of additions and betterments to the property after July 1, 1934. No improvements to the property have been made since July 1, 1934.

(A) - Character of expenses borne by carrier:

Maintenance	$ 548.04	$ 1,969.52	$ 41,832.12	$ 67,443.53	$ 32,463.18	$ 38,275.03	$ 11,825.62	$ 718.69	$ 1,739.83	$ 8,883.21	$ 10,013.96	$ none	$215,712.73
Insurance	2,255.18	8,974.60	8,976.03	8,975.32	9,141.77	10,281.24	10,682.79	11,308.54	10,714.26	9,881.77	9,881.75	4,799.65	105,872.90
Taxes	2,993.88	12,797.06	13,136.42	13,726.37	12,375.71	14,572.67	15,970.68	14,409.20	11,365.66	9,542.44	10,468.78	5,513.73	136,872.60
Total	$ 5,797.10	$ 23,741.18	$ 63,944.57	$ 90,145.22	$ 53,980.66	$ 63,128.94	$ 38,479.09	$ 26,436.43	$ 23,819.75	$ 28,307.42	$ 30,364.49	$ 10,313.38	$458,458.23

The leases provide that the carrier shall assume all taxes and special assessments levied upon the property leased and the cost of extraordinary repairs to exterior of structures.

The investigation did not disclose that any of the maintenance expenses borne by the carrier were of the character which the lessee is required to assume.

The leases make no specific provision for the cost of insurance borne by the carrier.

Attention is directed to the fact that the recorded maintenance charges do not include any amount for depreciation. Under the Commission's accounting regulations accounting for depreciation of fixed property is optional with the carrier.

* Indicates Loss.

CHICAGO AND NORTH WESTERN RAILWAY COMPANY

Elevator at South Chicago, Illinois
Leased to Rosenbaum Grain Corporation from July 1, 1927

	July 1, 1927	July to December 1927	YEAR 1928	1929	1930	1931	1932	1933	1934	January to June 1935	Total
Investment at close of period	$4,977,807.54	$4,979,189.11	$4,978,058.15	$4,987,775.68	$4,987,775.68	$4,987,775.68	$4,983,211.37	$4,983,211.37	$4,983,211.37	$4,983,211.37	
Rentals Received		150,000.00	203,939.47	177,999.96	178,915.00	178,541.76	178,541.76	178,541.76	178,541.76	89,270.88	$1,518,892.35
Expenses borne by carrier - (A)		93,068.74	73,734.85	77,491.95	76,081.53	77,061.16	61,150.43	51,105.88	54,997.32	29,727.60	594,419.46
Net Return		56,931.26	128,204.62	100,508.01	102,833.47	101,480.60	117,391.33	127,435.88	123,544.44	59,543.28	917,872.89
Per cent of annual return to investment		2.89%	2.58%	2.02%	2.06%	2.04%	2.36%	2.57%	2.51%	2.14%	

Lease dated June 1, 1927, covering a period of five years provides for a stated rental of $178,000.00 per annum, plus ½ cent per bushel of grain handled in excess of 30,000,000 bushels per annum and under 50,000,001 bushels per annum, and ¼ cent per bushel of grain handled in excess of 25,000,000 bushels per annum and under 30,000,001 bushels per annum, and ¼ cent per bushel of grain handled in excess of 50,000,000 bushels per annum. (Except with respect to the year 1928 no excess grain was handled.) Under a supplemental agreement the rental for the first six months was increased to $85,000.00 per month which was the same amount paid prior to July 1, 1927, by the former lessee, the Armour Grain Company. The stated rental of $178,000.00 per annum was increased $541.76 per annum representing 6% on the cost of installation of two wheat washers, effective April 23, 1929. A new lease for an additional period of five years under same general terms was executed July 1, 1932.

(A) - Character of expenses borne by carrier:

Maintenance	$ 21,163.62	$ 23,163.21	$ 17,807.98	$ 12,987.49	$ 10,646.53	$ 8,094.46	$ 5,349.09	$ 6,574.56	$ 3,920.88	$ 109,687.82
Insurance	4,762.98	9,630.96	10,318.28	10,521.88	10,484.37	8,988.88	8,643.30	7,777.89	3,452.04	74,405.58
Taxes	67,142.14	40,940.68	49,365.69	52,572.16	55,930.26	44,187.09	37,043.49	40,644.87	22,354.68	410,326.06
Total	$ 93,068.74	$ 73,734.85	$ 77,491.95	$ 76,081.53	$ 77,061.16	$ 61,150.43	$ 51,105.88	$ 54,997.32	$ 29,727.60	$ 594,419.46

The lease provides that the carrier shall assume the cost of all taxes levied against the leased property except sprinkling assessments of the City of Chicago, and that the carrier shall keep the property in good and sufficient repair, except that it is not required to renew, replace or repair any depreciation or wear caused by the lessee's operation of the property. The lease makes no specific provision for cost of insurance borne by the carrier.

It is understood that the carrier construes its maintenance obligation under the lease as requiring it to maintain the buildings and fixed improvements and that the lessee is responsible for the renewal of machinery and other movable equipment susceptible to wear and tear from operation. The carrier's records do not sufficiently describe the nature of the work covered by maintenance charges borne by the carrier to clearly indicate if any of the work was of a character that should be assumed by the lessee. However, the carrier's records indicate that it assumed no portion of any substantial amount covering repairs of a nature concerning which there appeared to be any doubt until, after investigation, a responsible official of the carrier so authorized.

Attention is directed to the fact that the recorded maintenance charges do not include any amount for depreciation. Under the Commission's accounting regulations accounting for depreciation of fixed property is optional with the carrier.

Elevators at Chicago, Illinois, - Known as Calumet Elevators A. B. and C.
Leased to Rosenbaum Brothers, from July 1, 1928.

	July 1, 1928	July to December 1928	YEAR 1929	1930	1931	1932	1933	1934	January to July 1935	Total
Investment at close of period	None	$620,918.25	$653,415.12	$921,078.80	$995,354.60	$1,004,215.43	$1,004,158.34	$1,004,198.34	$1,004,158.34	
Rentals received		15,666.25	45,347.24	50,278.06	70,698.66	66,708.66	78,208.66	72,456.34	42,314.21	$435,661.90
Expenses borne by carrier-(A)		11,212.06	24,750.92	34,186.25	36,359.63	25,376.35	16,953.89	19,578.68	10,543.89	178,961.61
Net returns		4,454.19	20,596.32	16,085.81	34,339.03	41,332.31	55,454.85	52,877.66	31,770.32	256,700.29
Per cent of annual return to investment		1.43%	3.15%	1.75%	3.45%	4.12%	5.50%	5.27%	5.42%	

This elevator property was formerly owned and operated by the Bartlett, Frazier Estate and was purchased by carrier in July 1928 through Rosenbaum Bros. for $641,250.00. Lease dated June 30, 1928, provides that carrier was to rehabilitate the property to meet the requirements of the lessee, at an estimated cost of $125,000. The annual rental was stated at $48,000 which was to be increased or decreased by 5% of the amount by which the actual cost of rehabilitation was greater or less than $125,000. In view of interruption to business during the progress of rehabilitation work by mutual agreement the rental was reduced 25% during the period from July 1, 1928, to March 31, 1929. The stated rental as adjusted according to rehabilitation cost is to be increased at the rate of 6% per annum on the cost of all repairs and changes made at the carrier's expense. The cost of improvements are included in the carrier's investment account.

(A)-Character of expenses borne by carrier:

Maintenance										
Trustee services (Continental Illinois Bank & Trust Co.)	None	$ 1,731.52	$ 10,085.07	$ 15,868.89	$ 5,896.95	None	$ 94.52	$ None	$ 33,216.95	
Sprinkler supervision and fire alarm service	None	None	None	28.50	57.00	$ 57.00	57.00	$ 33.25	232.75	
Insurance	$ 435.94	871.88	871.89	871.89	871.89	871.89	871.89	508.60	6,175.87	
Taxes	6,712.06	11,411.49	11,482.38	8,758.46	9,577.54	8,504.15	10,295.12	5,146.35	72,006.43	
	4,064.06	10,536.32	11,946.91	11,461.90	9,052.97	7,580.72	8,320.15	4,896.69	67,359.61	
Total	$ 11,212.06	$ 24,750.92	$ 34,186.25	$ 36,359.63	$ 25,376.35	$ 16,953.89	$ 19,578.68	$ 10,543.89	$ 178,961.61	

The lease provides that the carrier shall assume general and special taxes, insurance and extraordinary repairs and replacements and renewals of buildings, fixtures or machinery, except that lessee will reimburse carrier for general taxes in excess of $12,000.00 per annum. Supplemental lease of July 17, 1930, provides for increase in storage capacity of the elevators with respect to which lessee is to assume any increase in the amount of general taxes by reason of these improvements and cost of insurance applicable thereto.

The investigation did not disclose that any of the maintenance expenses borne by the carrier were of the character which the lessee is required to assume.

Attention is directed to the fact that the recorded maintenance charges do not include any amount for depreciation. Under the Commission's accounting regulations accounting for depreciation of fixed property is optional with the carrier.

WABASH RAILWAY COMPANY

Elevator at Randolph, (North Kansas City), Missouri

Leased to Uhlmann Grain Company - From July 1, 1929

	July 1, 1929	July to December, 1929	YEAR 1930	1931	1932	1933	1934	January to June - 1935	Total
Investment at close of period	$ 726,216.24	$ 731,298.21	$1,034,916.61	$1,245,085.28	$1,245,296.37	$1,245,483.24	$1,249,716.96	$1,249,716.96	
Rentals received		17,740.14	35,788.03	65,456.08	63,887.51	63,892.78	63,901.83	32,120.26	$ 342,786.63
Expenses borne by carrier (A)		17,103.70	28,200.14	25,323.91	13,096.98	10,735.59	13,833.15	7,735.07	116,028.54
Net return		636.44	7,587.89	40,132.17	50,790.53	53,157.19	50,068.68	24,385.19	226,758.09
Per cent of annual return on investment		0.17%	0.73%	3.22%	4.08%	4.27%	4.01%	3.90%	

Lease dated May 16, 1929, provides for a rental of $35,480.00 per annum, based on 6% of an agreed valuation of $591,333.33 plus 6% on cost of additions and betterments. Supplemental lease dated March 3, 1930, provided for certain specified additions and improvements to the elevator and the rental was increased 6% on the cost thereof. Further rental increase is provided in supplemental lease dated April 13, 1931, at 5% on the cost of a 1,000,000 bushel increase in storage capacity of the elevator. A separate agreement dated April 13, 1931, provided that lessee would, as required, advance construction costs of the additional storage facilities to be repaid by carrier at rate of $10,000.00 per month, with interest at 5% on unpaid balances. The cost of improvements was included in the carrier's investment account.

(A) - Character of expenses borne by carrier:

Maintenance	$ 12,780.13	$ 19,375.29	$ 15,427.66	$ 2,889.52	$ 1,002.78	$ 3,525.75	$ 2,041.78	$ 57,042.91
Insurance	1,278.57	2,284.85	2,996.25	3,110.96	2,874.81	2,387.40	1,322.04	16,254.88
Taxes	3,045.00	6,540.00	6,900.00	7,096.50	6,858.00	7,920.00	4,371.25	42,730.75
Total	$ 17,103.70	$ 28,200.14	$ 25,323.91	$ 13,096.98	$ 10,735.59	$ 13,833.15	$ 7,735.07	$ 116,028.54

The lease requires that the carrier shall assume the cost of insurance and taxes and all maintenance expense except ordinary repairs as are required from day to day. The carrier's records do not contain sufficient descriptive detail of the nature of maintenance work performed to clearly indicate, in every instance, whether the work was of a character that should be assumed by the lessee. The carrier's files, however, indicate that conscientious effort was made to apportion such expenses in accordance with the terms of the lease. Attention is directed to the fact that the recorded maintenance charges do not include any amounts for depreciation. Under the Commission's Classifications accounting for depreciation of fixed property is optional with the carrier.

THE CHICAGO, ROCK ISLAND AND PACIFIC RAILWAY COMPANY

Elevators at Kansas City, Kansas, - Known as Elevators "A", "B", "C" and "D".
Leased to Simonds-Shields-Lonsdale Grain Company, - from July 1, 1925.

	July 1, 1925	July to December 1925	YEAR 1926	1927	1928	1929	1930	1931	1932	1933	1934	January to July 1935	Total
Investment at close of period	$967,917.16	$972,845.97	$972,845.97	$976,681.27	$976,681.27	$976,681.27	$976,681.27	$976,681.27	$1,213,735.38	$1,214,178.12	$1,214,178.12	$1,214,178.12	$1,214,178.12	
Rentals received		18,803.94	37,607.88	37,607.88	37,933.94	37,838.04	37,838.04	41,851.81	52,358.11	52,056.12	52,056.12	30,366.07	$436,297.95
Expenses borne by carrier - (A)		17,740.62	26,653.50	26,662.65	42,446.08	46,418.17	23,558.74	34,398.27	23,589.99	33,893.52	35,038.27	18,802.92	329,202.73
Net return		1,063.32	10,954.38	10,945.23	* 4,512.14	* 8,580.13	14,279.30	7,453.54	28,768.12	18,162.60	17,017.85	11,563.15	107,095.22
Per cent of annual return to investment		0.22%	1.13%	1.12%	* 0.46%	* 0.87%	1.46%	0.61%	2.37%	1.50%	1.40%	1.61%	

Lease dated July 22, 1925, provided for a stated rental of $37,607.88 per annum, plus 6% per annum on the cost of additions and betterments to the property. Carrier's files indicate the stated rental was a combination of a rental of $30,954.77, effective July 1, 1918, recommended by Commissioner Harlan, plus 6% on cost of subsequent additions and betterments to June 30, 1925. Lease dated April 1, 1931, specifies a rental of $35,558.00 per annum, effective May 1, 1931, which takes into account certain retirements and improvements. Separate agreement of April 1, 1931, provides for additional facilities to be constructed by lessee at a cost estimated at $254,000.00 for which the lessee is to be reimbursed by the lessor at the rate of $2,500.00 per month plus interest at 5% on the unpaid balance. The actual cost of the additional facilities amounted to $274,698.52 and by lease dated January 19, 1932, additional rental of $15,641.38 per annum named in an agreement dated April 1, 1931, and based on the estimated cost of the additional facilities, was increased to $16,498.11, or 6% on the actual cost of the additional facilities. The cost of improvements is included in the carrier's investment account.

(A)-Character of expenses borne by carrier:

Maintenance	$ 6,849.34	$ 5,465.17	$ 5,398.18	$ 21,640.05	$ 24,906.13	$ 2,652.12	$ 13,704.49	$(Cr)(4,537.90)#	$ 1,668.03	$ 2,788.54	$ 440.97	$ 80,975.12
Insurance	1,716.56	3,469.69	3,119.53	3,119.53	2,916.54	2,918.54	1,873.53	1,357.40	1,356.02	1,265.82	735.01	23,880.17
Taxes	9,174.72	17,718.64	18,144.94	17,686.50	18,595.50	17,988.08	18,820.25	26,770.49	30,869.47	30,983.91	17,626.94	224,347.44
Total	$ 17,740.62	$ 26,653.50	$ 26,662.65	$ 42,446.08	$ 46,418.17	$ 23,558.74	$ 34,398.27	$ 23,589.99	$ 33,893.52	$ 35,038.27	$ 18,802.92	$329,202.73

Lease dated July 22, 1925, provided that carrier shall assume the cost of extraordinary repairs to elevator and necessary replacements of machinery, fixtures, boilers, appurtenances and appliances which shall become necessary through ordinary wear and tear thereof. The investigation disclosed that the carrier attempted to collect some of the maintenance costs borne by it from the lessee during the year 1927, the liability for which was denied by the lessee and controversy with respect thereto was concluded by carrier's cancellation of its bills. No attempt was made to collect repair charges from lessee after that time and prior to 1933 when a bill was presented to the lessee for $17,476.21 which was finally settled for $484.85. By reason of disputes regarding lessee's liability for repair charges, a clarifying agreement was made on May 1, 1934, which defines replacements and provides that carrier shall assume the cost of new parts (material only) amounting to more than $50.00 for repairs required to be made by the lessee. Insurance and taxes borne by the carrier are not mentioned in the lease, except taxes on additional facilities covered by lease dated April 1, 1931.

Attention is directed to the fact that maintenance charges do not include any amount for depreciation. Under the Commission's accounting regulations accounting for depreciation of fixed property is optional with the carrier.

Net credit of $4,537.90 is occasioned by recording as a credit in January, 1932, $12,560.07 received from insurance companies in reimbursement of expenditures incurred by reason of a dust explosion in 1931.

* Indicates loss.

CHICAGO, MILWAUKEE, ST. PAUL AND PACIFIC RAILROAD COMPANY
ELEVATOR AT KANSAS CITY, MISSOURI, - KNOWN AS COBURG ELEVATOR.

Leased to Simonds-Shields-Lonsdale Grain Company (Simonds-Shields Grain Co. - predecessor) from July 1, 1907

	January 1, 1920*	YEAR 1920	1921	1922	1923	1924	1925	1926	1927	1928	1929	1930	1931	1932	1933	1934	January 1 to June 30 1935	Total
Investment at close of period	(1) $669,569.79	$673,813.85	$673,813.85	$679,170.78	$675,030.22	$675,030.22	$678,609.57	$679,953.11	$685,037.19	$687,502.19	$688,333.69	$688,562.72	$688,562.72	$688,562.72	$688,562.72	$688,562.72	$688,562.72	
Rental income		27,641.04	27,641.04	27,641.04	27,641.04	27,641.04	27,641.04	27,641.04	27,641.04	25,498.94	22,500.00	22,500.00	22,500.00	22,500.00	22,500.00	22,500.00	11,250.00	$392,877.26
Expenses incurred by carrier - (A)		22,773.75	20,046.96	21,788.68	22,153.87	26,062.84	33,827.79	28,431.46	23,435.89	45,347.75	33,206.70	21,143.70	21,828.06	18,198.31	20,088.29	22,808.25	10,294.85	397,437.15
Net return		4,867.29	7,594.08	5,852.36	5,487.17	1,578.20	Loss 6,186.75	Loss 790.42	4,205.15	Loss 19,848.81	Loss 10,706.70	Loss 1,643.70	Loss 2,328.06	4,301.69	2,411.71	Loss 308.25	955.15	Loss 4,559.89
Per cent of annual return to investment		0.72%	1.13%	0.86%	0.81%	0.23%	Loss 0.91%	Loss 0.12%	0.61%	Loss 2.89%	Loss 1.56%	Loss 0.24%	Loss 0.34%	0.63%	0.35%	Loss 0.05%	0.28%	

(1) represents value as of June 30, 1918, as found by the Commission ($668,998.00) plus additions and betterments amounting to $571.79 during the year 1919.

The original lease to Simonds-Shields Grain Company, dated June 5, 1907, was effective July 1, 1907. Lease dated July 15, 1913, provides for a rental of $9,500.00 per annum and in lease dated October 30, 1918, to Simonds-Shields-Lonsdale Grain Company, extending the prior leases from August 1, 1918, it is stated that by mutual agreement the $9,500.00 per annum rental has been increased to $19,743.63 per annum effective prior to August 1, 1918, and that pursuant to the recommendation of the Interstate Commerce Commission the rental has been further increased to $27,641.04 per annum effective July 1, 1918. Lease dated June 29, 1928, provides for a rental of $22,500.00 per annum from August 1, 1928.

(A) - Character of expenses borne by carrier:

Maintenance	$ 14,739.94	$ 11,971.51	$ 14,186.46	$ 15,253.61	$ 18,211.01	$ 18,682.80	$ 13,333.81	$ 12,803.89	$ 35,091.69	$ 23,264.84	$ 11,432.96	$ 14,795.62	$ 7,638.43	$ 10,820.59	$ 12,896.07	$ 4,991.66	$243,354.89
Water				166.98	660.50	646.13	438.10	752.86	598.08	681.49	676.18	595.58	485.56	447.84	406.73	211.04	6,767.07
Insurance	909.59	1,493.04	1,493.28	1,493.27	1,958.98	3,844.33	4,228.92	4,332.16	4,093.11	3,739.49	3,484.25	3,826.56	4,061.71	3,514.63	3,891.09	2,243.04	48,548.25
Taxes	7,124.22	6,582.41	5,808.94	5,240.01	5,232.35	10,714.53	10,430.63	5,546.98	5,564.87	5,520.88	5,610.31	5,610.30	6,012.61	5,305.03	5,614.36	2,848.51	98,766.94
Total	$ 22,773.75	$ 20,046.96	$ 21,788.68	$ 22,153.87	$ 26,062.84	$ 33,827.79	$ 28,431.46	$ 23,435.89	$ 45,347.75	$ 33,206.70	$ 21,143.70	$ 21,828.06	$ 18,198.31	$ 20,088.29	$ 22,808.25	$ 10,294.85	$397,437.15

The current lease provides that the carrier shall maintain and repair the buildings, brick boiler settings and smoke stack and reimburse the lessee for wages paid a machinist, not exceeding $166.66 per month, and cost of material purchased for repairs to elevator. The lease is silent in the matter of obligation to assume the cost of water, insurance and taxes. Upon inquiry as to the reason for carrier's assumption of water cost, the investigator was informed that since the carrier had borne that expense in the past no attempt would be made to shift that expense to the lessee during the term of the present lease which expires July 31, 1938.

* No detail records of rental income and expenses available for the period prior to January 1, 1920.

APPENDIX - Section D.

Results of leasing

The Atchison, Topeka & Santa Fe Ry. Co.,

elevator at Argentine, Kansas to

Davis-Noland Merrill Co.

Storage Capacity of the elevator 10,529,000 bushels

Rental income Jan. 1, 1931 to June 30, 1935		$ 617,357.81
Expense paid by carrier owner		389,019.10
	Balance	228,338.71
Depreciation 1½ per cent on original cost plus land ($4,048,874) $60,733.41 per annum 4½ years		273,300.35
	Deficit	44,961.64
Return on investment for elevator proper 6 per cent on original cost -- $242,932.44 per annum, $242,932.44 times 4½ years		1,093,195.98
	Deficit	1,138,157.62
Taxes and maintenance on yard tracks or sidings which a private owner of similar property would pay based on respondents figures (4½ years)		4,232.22
Respondents value of land and tracks $100,000 6 per cent return ($6,000) per annum 4½ years		27,000.00
Deficit under adequate return on the property		$1,169,389.84

Results of leasing

The Chicago, Burlington & Quincy elevator at North Kansas City

Lessee Farmers & National Warehouse Corporation

Assignee of Hall-Baker Grain Co.

Capacity 2,400,000 bushels

Income Jan. 1, 1926 to May 31, 1935		$ 474,583.85
Expenses of carrier		113,176.66
	Remainder	361,407.19
Depreciation 9½ times $18,594.14 (1½ % of $1,239,609)		176,644.33
	Net #	184,762.86
Return on investment		
9½ (years) times $74,376.54 (6% on original cost plus land)		706,577.13
	Deficit	521,814.27
Estimated taxes and maintenance of elevator tracks		
9½ times $713 (per annum)		6,773.50
		528,587.77
6% return on estimated value of land and elevator trackage		
($20,925) for 9½ years		11,927.25
Total deficit for lease period 9½ years		$ 540,515.02

The net after depreciation is equal to 1.56% per annum on Original Cost plus present value of land or 1.76 per cent per annum on depreciated cost of reproduction, 1934 period prices plus present value of land.

Results of leasing

The Chicago, Milwaukee, St. Paul and Pacific Ry. elevator at Kansas City

Simonds, Shields, Lonsdale Company lessee

Storage capacity 2,852,600 bushels

Rental income Jan. 1, 1920 to July 1, 1935		$ 392,877.26
Expenses of the carrier		397,437.15
	Loss	4,559.89
Estimated Depreciation based on 3 per cent of original cost for 15½ years	x	330,774.96
	Deficit	335,334.85
Return on property six per cent on original cost for 15½ years		661,549.92
Estimated taxes and maintenance cost of necessary tracks $2,427.50 per annum 15½ years		37,626.25
Return on value of land and tracks serving the elevator 6% of $47,113 ($2,826.78) for 15½ years		43,815.09
	Total deficit	$1,078,326.11

x In this connection attention is called to the fact that the same lessee has used the property throughout its service life and the Bureau of Valuation reports accrued depreciations of $544,569.00 based on the difference between Original Cost and Original Cost depreciated (see Appendix B).

Results of leasing

Chicago, Rock Island & Pacific Ry. elevator at Kansas City

Simonds, Shields, Lonsdale Company lessees

Storage capacity 3,731,280 bushels

Rentals received Jan. 1, 1931 to July 1, 1935		$ 228,668.23
Expenses of carrier		145,722.97
	Remainder	82,945.26
Estimated depreciation 4½ years at 1½ per cent of original cost (17,724.35)		79,759.55
	Net	3,185.71
Return on property 6 per cent on original cost (70,897.38) 4½ years		319,048.21
	Deficit	315,862.50
Estimated track maintenance 4½ years		1,575.00
Return on value of necessary trackage 6 per cent of 9,406.67 ($564.40) for 4½ years		2,539.80
	Total deficit	$ 319,977.30

Results of leasing

The Wabash Railway Company elevator at Kansas City, Mo.

Uhlman Grain Company lessee

Storage capacity 4,137,120 bushels

Rental income Jan. 1, 1931 to July 1, 1935		$ 289,258.46
Expenses of carrier		70,724.70
	Remainder	218,533.76
Depreciation 2 per cent on $1,288,514 ($25,770.28) times 4½ years		125,966.26
	Net #	92,567.50
Approximate cost of taxes and maintenance for necessary tracks		13,500.00
Return on cost of reproduction at 1934 period prices depreciated plus value of necessary tracks, $1,147,713.97 at 6 per cent; $68,862.84 for 4½ years		309,882.78
	Deficit	$ 230,815.28

Equivalent to a return of 1.88 per cent on depreciated cost of Reproduction 1934 period prices or 1.59 per cent on Original Cost.

Results of leasing

Chesapeake & Ohio Ry. Co. elevator at South Chicago

Rosenbaum Brothers lessees

Storage Capacity 4,000,000 bushels

Rental income Jan. 1, 1930 to July 1, 1935		$ 374,658.41
Expenses of carrier		142,998.63
	Remainder	231,659.78
Depreciation 1½ per cent of original cost ($14,633.07) 5½ years		80,481.89
	Net #	151,177.89
Return 6 per cent on original cost ($58,532.28) 5½ years		321,927.54
	Deficit	170,749.65
Return on necessary land and tracks used by elevator 6 per cent on $24,372.85 ($1,462.37) 5½ years		7,404.30
	(a) Total deficit	$ 178,153.95

(a) Does not include taxes and maintenance relating to elevator trackage.

Equivalent to 2.8 per cent on Original Cost or 2.38 per cent on depreciated cost of reproduction new at 1934 period prices.

Results of leasing

Chicago & North Western Railway Co. elevator at South Chicago

Cargill Elevator Co. assignee of Rosenbaum Brothers lessees

Storage Capacity 10,000,000 bushels

Rental income July 1, 1937 to June 30, 1935		$1,512,292.35
Expenses of carrier		594,419.46
	Balance	918,872.89
Depreciation 1½ per cent on original cost 8 years times $72,997.11		583,976.88
	Net x	333,896.01
Return 6 per cent on original cost		2,335,907.52
	Deficit	2,002,011.51
Estimated maintenance cost for 4.154 miles of track		18,203.20
Return on necessary trackage valued at $117,523.90 at 6 per cent per annum		56,411.44
	Total deficit	$2,076,626.15

x Equivalent to .93 per cent on depreciated cost of reproduction at 1934 period prices or .85 per cent on Original Cost.

Results of leasing

The Chicago, Rock Island & Pacific Railway Co. elevator at South Chicago

Lessee Farmers National Warehouse Corporation

Successor to J. C. Shaffer Grain Company

Storage Capacity 4,500,000 bushels

Rental income Oct. 1, 1924 to June 1935	$ 366,634.46
Expenses borne by carrier	458,458.23
Out of pocket loss	91,823.77
Depreciation 1½ per cent on original cost for 10 3/4 years	243,844.83
Deficit	335,668.60
Return 6 per cent on original cost or $90,728.94 per annum	975,336.10
Return on necessary tracks valued at $119,261.31 at 6 per cent per annum	76,923.56
Total Deficit	$1,387,928.26

The total deficit for the 10 3/4 year leasing period is approximately equal to the value of the propoerty.

Results of leasing

The New York Central R. R. Co. elevator at Indiana Harbor

Bartlett-Frazier Grain Co. lessee

Storage Capacity 1,250,000 bushels

Rental income July 1, 1920 to October 1, 1935	$	354,092.76
Expenses of carrier		163,723.36
Balance		190,369.40
Depreciation 1½ per cent on original cost		86,195.44
Net	#	94,173.96
Return on elevator proper 6 per cent on cost of reproduction 1934 period prices, depreciated 15-1/4 years		372,325.40
Deficit		278,151.44
Return on necessary trackage 6 per cent per annum on $18,730 (15-1/4 years)		17,137.95
Taxes and maintenance on such trackage, pratially estimated		32,192.75
Deficit	$	327,482.14

Equal to approximately 1½ per cent return.

APPENDIX - SECTION E

Statement of Mr. S. E. Shoup, Engineering Assistant

The following is an estimate of the operating savings that could be accomplished through the coordination of railroad owned grain elevators in Kansas City:

The general theory upon which it is based is that warehouse receipts would be issued to purchasers of grain which, when sold would be withdrawn from that elevator which would occasion the least terminal switching in its shipment. Grain arriving and bought by a company in the coordinated operation would be stored in the most convenient elevator and the purchaser would receive a warehouse receipt for that amount and quality which would be redeemable at any of the coordinated elevators. Grain purchased by mills would be handled as at present; that is, the actual car purchased would be delivered to the mill - no change in handling reconsigned cars is considered.

The following statements accompany this report:

1. Number of loaded grain cars for line haul from each railroad owned elevator to each road (including the road owning the elevator) by line haul roads for the year 1931.

2. Cars received by railroad owned elevators June 13 to August 28, inclusive, as reported by joint terminal grain committee.

3. Report of joint terminal grain committee of cars received and cars unloaded June 13 to August 28, 1931, by roads.

4. Grain in various railroad owned elevators at the end of each month in 1931.

5. Board of Trade data for 1931 covering bushels received by months, bushels shipped by months and cars brought to Kansas City by railroads.

The statements referred to are voluminous and have not been reproduced. A copy may be secured by application to the Federal Coordinator of Transportation, Washington, D. C.

There follows a typical comparison of switching operations required when a car of grain is taken to the elevator of the road bringing the car into the terminal and when it is switched crosstown to the elevator of some other line:

CAR TO OWN ELEVATOR	CAR TO CONNECTING LINE ELEVATOR
1. Enters receiving yard.	1. Enters receiving yard.
2. Classified in classification yard.	2. Classified in classification yard.
3. Taken to inspection point.	3. Taken to inspection point.
	4. Taken to outbound classification yard.
	5. Classified for connecting line.
	6. Arrives at receiving yard of connecting line.
	7. Classified for elevator delivery.
4. Taken to elevator yard and unloaded.	8. Taken to elevator yard and unloaded.
	9. Taken to outbound classification yard.
	10. Classified for delivery home.
	11. Arrives at receiving yard of home road.
5. Classified.	12. Classified.
6. To road or storage.	13. To road or storage.

The foregoing is presented as typical only - in some cases the movements outlined above are combined as when, for instance, a road brings in so little grain that its inspection point is merely a designated track in its classification yard. Sometimes during the rush grain season, solid grain transfers are moved from one yard to another and classification by the connecting line is not necessary as the entire cut may be taken to the elevator yard. There would be still other exceptions, but in total, they would only amount to a small percentage.

The example cited is for a car loaded with grain entering the terminal. However, the excess switching as shown above is just the same where cars loaded with grain leave by a road other than the one on which the elevator is located that loads the car. This is because the line receiving the road haul on outgoing grain furnishes the cars for loading. These cars have to be switched crosstown empty and back loaded. This is just the reverse of the case given but the excess switching is identical.

Where cars are moved to connecting lines, there are seven additional movements required. On an out of pocket basis, these movements cost in direct transportation, an average of 50¢ which would make the total $3.50. This does not include the items of maintenance of way, car maintenance, car hire, supervision nor overhead. While it is

acknowledged that neglecting the items of supervision or overhead can be carried to the point of making these items unduly burdensome on other classes of traffic not exempted, it seems for the purpose of this study, proper to neglect it. Maintenance of Way per car on a crosstown movement would amount to little. Car maintenance could be determined on an average basis and would amount to say 7 to 10 cents a car, but is not included. Car detention, especially during the grain rush is an important factor because of getting cars back to the loading areas as quickly as possible. It is also a factor of movement at other times. The average excess detention of cars interchanged in grain movement was determined as slightly over 24 hours and for this detention $1.00 is added to the direct transportation cost, making the total cost for crosstown switching $4.50 per car.

The following table shows the amount of grain brought in Kansas City by roads and the amount taken out from railroad elevators by roads. This table shows clearly that in order to satisfy the outward movement from Kansas City, it is necessary to distribute the incoming grain. Attention is called to the fact that while the Alton, Wabash, Milwaukee, C.G.W. and K.C.S. brought in negligible quantities, the outward movement on these roads was considerable. The Santa Fe which brought in 36.7% of the total moved out only 11.7% of the grain from railroad owned elevators.

The Santa Fe, Missouri Pacific, Rock Island or Burlington could not possibly have unloaded in their respective elevators their grain receipts during the month of July, 1931. Even if the capacity of the elevators had been sufficient, the unloading facilities would not have been adequate to unload the volume without excessive car detention and the resulting congestion of their yards.

Table II shows, for the rush grain season, (June 13 to August 28, 1931) the number of cars delivered to railroad grain elevators and the disposition by roads. It also shows in the last column how many cars were delivered to the elevators of other roads by the roads bringing in the grain, which could have been accommodated at the elevator of the inbound road haul carrier. Since this was the actual performance, no question of capacity, either of the elevator or unloading facilities can be raised. It is altogether probable that more cars could have been saved crosstown switching that this table indicates, but as to that number, there can be no question. Table II covers the peak period, at other normal periods when fewer cars were coming in and the unloading capacity was not the controlling feature, unquestionably a greater percentage could have been saved from crosstown switching. The point at issue in this case, however, is to keep the grain distributed to best advantage for outward movement. This problem would be one that some central authority would be compelled to direct, with a good knowledge based on past performance and requirements. Table II indicates that a minimum of 8,218 cars would have been affected during the period covered. Since this represents 38% of the grain receipts for the year,

the total for the year is estimated at 21,626 cars. The detail upon which Table II is based will be found in Statement II.

Table III shows the receipts of grain by months in bushels as reported by the Board of Trade. This has been reduced to cars on the basis of 1,600 bushels to the car and the percentage of each month to the yearly total shown. July is the big month with 27.8% of the total and August second with 10.6% of the total. The rest of the months vary from 8.0% in May to 4.1% in December, the variation being slight.

Table IV shows the outward movement of grain from railroad owned elevators for the year 1931 divided between movements from elevators owned by the outbound road carrier and elevators owned by other carriers. This shows that 23,763 cars were switched crosstown in outward movement. Table IV is based on the detail shown in Statement I.

As previously pointed out, the excess switching required on inbound and outbound cars is identical when crosstown switching is involved. As shown by Table II the estimated number of inbound movements on which switching could have been saved was 21,626 cars. From Table IV the outbound movement on which switching could have been saved was 23,763 cars. This makes a total of 45,389 cars which were involved in interchange movements and incidental switching incurred thereby.

As previously developed, this excess switching is estimated to cost $4.50 per car, which applied to 45,389 cars amounts to $204,250.50.

TABLE I

Table showing total receipts of grain and shipments from railroad elevators-Kansas City-Year 1931

Railroad	Total In.	Per-cent.	From RR Elevators Out.	Per-cent.
Alton	42	-	3,678	7.4%
A. T. & S. F.	35,434	36.7%	5,848	11.7%
C. B. & Q.	17,051	17.7%	7,092	14.3%
C. G. W.	440	0.5%	2,457	4.9%
C. M. St. P. & P.	50	0.1%	5,259	10.5%
C. R. I. & P.	15,941	16.5%	3,519	7.0%
K. C. S.	28	-	2,410	4.8%
M. K. & T.	1,381	1.4%	3,628	7.3%
Missouri Pacific	13,920	14.4%	10,507	21.1%
St. L. & S. F.	979	1.0%	1,384	2.7%
Wabash	90	0.1%	4,144	8.3%
Union Pacific	11,209	11.6%	16	-
Total	95,565	100.0%	49,942	100.0%

Note: The inbound column includes all grain brought into Kansas City, a large portion of which was purchased by and delivered to mills. The total estimated amount of grain shipped from Kansas City including flour reduced to bushels of wheat on the basis of 4.6 bushels to the barrel and 1,600 bushels of wheat to the car was 89,300 cars.

TABLE II

Table showing number of cars delivered to railroad owned elevators and the disposition made of (July 13th to August 28th, inclusive, 1931)

Road	Cars from road delivered to RR Owned Elevators	Cars from road to own Elevator	Cars to other RR Owned Elevators	Total cars unloaded at own Elevator	Cars from other roads unloaded at own Elevator	Cars Available for unloading from own road cars
Alton	-	-	-	1,500	1,500	-
A.T. & S.F.	13,522	2,764	10,758	4,761	1,997	1,997
C.B. & Q.	1,165	79	1,086	2,188	2,109	1,086
C.G.W.	-	-	-	871	871	-
C.M.St.P.&P.	-	-	-	2,254	2,254	-
C.R.I. & P.	4,532	566	3,966	2,448	1,882	1,882
K.C.S.	-	-	-	1,470	1,470	-
M.K. & T.	341	15	326	2,135	2,120	326
Mo. Pac.	3,255	666	2,589	5,275	4,609	2,589
St.L. & S.F.	338	-	338	472	472	338
Wabash	-	-	-	2,393	2,393	-
U.P.	2,614	-	2,614	-	-	-
Total	25,767	4,090	21,677	25,767	21,677	8,218

Note: The above represents 38.0% of the total for the year 1931 making total of last column 21,626 on that basis.

Note: During the year 1931, the Alton brought in 42 cars, the C.G.W. 440, the C.M. St.P. & P. 50, the K.C.S. 28, the Wabash 90. The source of information from which the above was taken did not show the receipts of these roads during the period covered.

TABLE III

Grain received by months

Month		Bushels	Cars	Percentage
January,	1931	11,228,000	7,018	7.3%
February,	"	10,687,850	6,680	7.0%
March,	"	9,349,950	5,844	6.1%
April,	"	8,641,900	5,401	5.6%
May,	"	12,231,900	7,645	8.0%
June,	"	10,657,400	6,661	7.0%
July,	"	42,563,500	26,602	27.8%
August,	"	16,117,050	10,073	10.6%
September,	"	9,973,800	6,234	6.5%
October,	"	8,167,500	5,105	5.3%
November,	"	7,165,200	4,478	4.7%
December,	"	6,158,300	3,849	4.1%
Total		152,949,350	95,590	100.0%

Note: Bushels are reduced to cars on the basis of 1,600 bushels per car.

TABLE IV

Outward shipments of grain from Kansas City railroad owned elevators, year 1931

Railroad	Total cars forwarded	Cars forwarded from own elevator	Cars forwarded from other RR owned elevators
Alton	4,781	1,817	2,964
A. T. & S. F.	3,721	2,979	742
C. B. & Q.	7,574	4,683	2,891
C. G. W.	2,858	891	1,967
C. M. St. P. & P.	3,595	1,897	1,698
C. R. I. & P.	6,963	2,873	4,090
K. C. S.	1,394	494	900
M. K. & T.	2,679	1,975	704
Mo. Pac.	10,515	5,980	4,535
St. L. & S. F.	1,829	462	1,367
Wabash	3,981	2,076	1,905
Total	49,890	26,127	23,763

Note: U. P. and K. C. C. C. & St. J. omitted since they have no elevators.

Date Due

Mar 4			
13 Mar'51	7/27		
Feb23'52	3/8.		

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